THOMAS GIBSON'S MARKET LETTERS FOR 1907

FOREWORD.

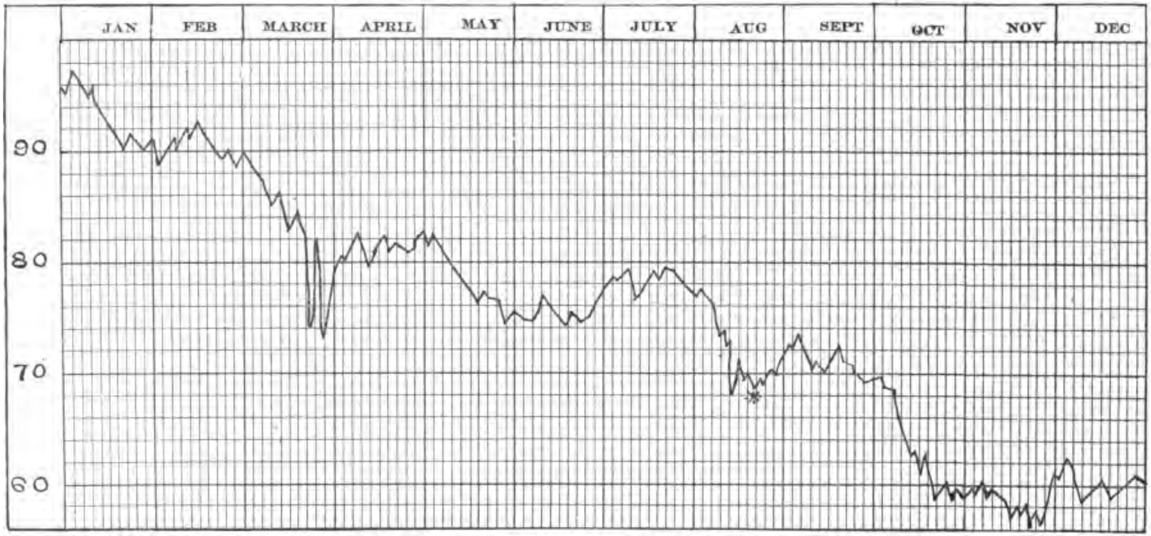
In presenting these letters to the public it is considered unnecessary to make any extended comments. The letters speak for themselves. The letters presented cover only the weekly advices and one or two special letters. It will be understood that in other special letters certain specific properties were analyzed and recommended and that in daily letters there were occasional modifications or temporary reversals.

Another point which should be given due consideration is that the *percentage* of decline in rails was less than in industrials. I abandoned my position on the bear side on August 17, 1907, and lowest prices of stocks were reached on November 21, 1907. The decline between these two dates was 14.60% in rails and 23.60% in industrials. This tends to magnify the decline shown in the following chart, as both rails and industrials were used as a basis, and I did not at any time advise purchases of industrials during this period.

The chart on the next page will show at a glance the result of the advice offered in 1907.

CHART SHOWING MOVEMENTS OF 41 ACTIVE RAILS AND INDUSTRIALS IN 1907.

(Thomas Gibson's figures.)



At the point marked (*) I advised abandoning the short side and purchasing good railroad stocks on further declines.

It will be observed that while the great decline was anticipated early in 1907, the change of position late in August was a trifle premature. There are two things to be said about this error, however. The declines of October and November were artificial rather than fundamental and were very hard to anticipate. Fortunately, such events do not occur oftener than once in ten or twelve years. I will also call attention to the fact that the advice given at the time mentioned was to buy on breaks; provide ample margins and prepare to average in the event of further declines.

It is not my intention, in the remarks made above, to evade responsibility for errors of calculation or judgment. It is my opinion that a great deal more can be learned from our mistakes than from correct deductions. Almost the first words of the first letter, "there will be no panic," proved to some extent a mistake, but it is only fair to say that when these words were penned I had in mind rather a panic of *stock prices* than a panic of the *mind*. In truth, we had no great or panicky decline in stock prices in any one session.

As a proof of the general efficacy of the methods of judging prices which I have adopted it may be stated that from May 9, 1901, to August, 1907, I made no serious error in my calculations. The Northern Pacific corner in 1901 upset all deductions, but thereafter I was able to anticipate the great decline of 1903 and in my forecast for 1904, issued on January 1 of that year, I predicted eighteen months of advancing prices. This was followed by a decided change of position as shown in the letters printed in this book. It goes without saying that numerous temporary reversals were offered at times. No market moves continually in one direction and by a close examination of the technical situation several important turns can be made yearly.

I realize the fact that there are many traders and speculators who are dissatisfied with advice which is not specific as to price limits and daily changes. After twenty years of experience I can state emphatically that any attempt to make money by daily operations will result in loss. There is absolutely no way to reduce the market to a machine basis. The attempt to make a game of chance out of the stock market is absurd and even if it were a game of chance it would be still more absurd to figure on making *laws* to govern a game of *chance*. People who ttempt to operate in stocks by consulting the calculus of probabilities forget that the calculus is essentially mathematical while the fluctuations of stocks are due to changeable events and individual operations.

The stock market offers opportunities for reasonable profits every year—larger profits than any business I know of—but if it is considered a get-rich-quick game or a machine, failure is ultimate and certain.

WEEKLY MARKET LETTERS

OF

THOMAS GIBSON

BEGINNING FEBRUARY 2 1907

SUITE 329-30-1-2-3
CORN EXCHANGE BANK BLDG.
NEW YORK CITY

WEEKLY LETTER

February 2, 1907.

I have been arrayed on the bull side of the Stock Market for so long that a determined expression of opinion in favor of lower prices will no doubt come as a surprise to my friends.

In my forecast issued on January 1st, 1904, I said we were in for an advance which would extend over 18 months or two years, and since that time my public utterances have taken the form of predictions of higher prices. Now I am ready to change my attitude entirely. I am as decidedly a bear as I have been a bull.

It is of primary importance that a decided stand should be taken as to the future of the market. My views are as follows:

1.—THERE WILL BE NO BULL MOVEMENT OF IMPORTANCE.

2.—THERE WILL BE NO PANIC.

3.—STOCKS WILL GRADUALLY AND SURELY SEEK A LOWER LEVEL, AND THIS DECLINING TENDENCY WILL BE APPARENT FOR SOME TIME.

4.—THERE WILL BE, AS USUAL, MANY SHARP UPTURNS, AND WHEREVER A CONGESTED SHORT INTEREST IS FOUND IT WILL BE PUNISHED.

My reasons for this change of heart are:

1. No bull movement was ever started from a high level, such as exists at present.

2. No bull movement was ever based on conditions so apparent as our present prosperity. All this prosperity has been discounted in prevailing prices.
3. The shares held by big men are **for sale.** Not necessarily because they are not worth present prices, but because they can be re-purchased at lower prices a year or two hence. Present conditions warrant present prices, but what about the future?
4. The inside interests have already parted with a good share of their stocks. We hear that the public is not buying. They **are** buying a little now and then, and what is more important, a good many of them have already bought. The idea that several billion dollars worth of stocks can be sold on one big hurrah, and that all the leaders have to do when they get ready to sell, is to create an exciting advance of ten or fifteen points, is all moonshine. The process of liquidation is a slow and tortuous one. A few thousand shares must be disposed of here and there from day to day, and this very thing has been going on in Wall Street for three months or more.
5. We hear a great deal about "Easy Money." Many people seem to be impressed with the idea that as soon as funds return to Wall Street such funds will at once be diverted to the purchase of stocks, regardless of price, value or conditions. There is nothing in this. What we must look out for is probable future conditions rather than mere availability of funds.
6. Net earnings will fall off in many important quarters during the next year. This is as certain as death. I will attempt to demonstrate this fact at considerable length in my monthly letter of February 15th.
7. Every upward movement in stocks from now on will be created for the purpose of liquidating holdings **and for no other purpose.** It stands to reason that such movements will be accompanied by explanations and roseate views. These upturns are laboriously manufactured in order to make people bullish, for of such is the Kingdom of Wall Street.

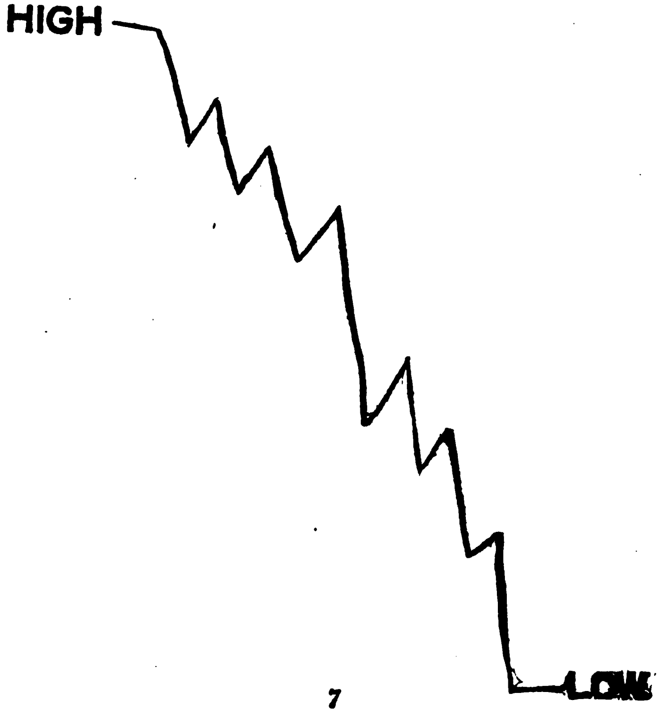
The Technical Position

It will be inferred from the statements already made that the technical position is very much mixed. This is exactly true. Insiders have about 40% of the leading speculative shares; the "pools" have about 20%, but these pool holdings are continually shifting. The public has the rest, and in time will have them all, or practically all. It is owing to this mixed technical situation

that I look for sharp reactions after each break. The powers that be are still property owners and they will do everything they can to create a market for their wares, and also there will be at all times a considerable short interest in the general market. Many good traders recognize all the facts set forth in this letter and are following out the principle of selling on bulges. This short interest will prevent any panicky breaks by its own purchases. It will not grow extensive enough to be a menace. In fact it is just what the trader wants. The ideal market is one which moves from one level to another gradually and with many reactions.

The Best Method of Trading

Sales on advances are the only safe commitments just at present. It may appear that if the market is to sway back and forth, sales on advances and purchases on declines would offer the maximum of opportunity to the shrewd trader. But not so. Let me illustrate this. A market movement from high to low prices as shown by a chart is about as follows:



As simple as this illustration may appear, it is worthy of most earnest consideration. True, the upward and downward movements show opportunities on both sides, but if the **purchaser** makes a mistake, as all speculators will, he is hopelessly involved. If he buys at the wrong point he will never see daylight during the progress of the movement. Look at the other side of the matter. The **seller** cannot make a mistake. No matter at what point he sells a profit lies before him. A little reflection will show what a tremendous difference exists here.

I strongly advise the selling of all stocks, particularly the high-priced, dividend-paying rails; Amalgamated Copper and American Smelting and Refining Company on all advances, unless otherwise advised in my daily letters.

Do not overstay the breaks, there will be upturns. Take fair profits and sell again. In case of sharp advances don't be frightened, but average your sales. Profits will be forthcoming a few days later.

I find that Pennsylvania, New York Central and Reading are heavily bought by public interests. In the industrials, Amalgamated Copper and United States Steel Common are favorites. This evidence of one-sided participation makes the stocks mentioned particularly vulnerable and holders should abandon their position on the first rally.

WEEKLY LETTER

February 9, 1907.

From a large and diversified correspondence, mostly with small investors or speculators, I find that a great many people have purchased mining stocks. These purchases range from the stocks of worthless fakes to the listed securities dignified with the title of "The Amalgamated Copper Co."

Of the first class, the advertising fakes, I may say briefly that they are, as a rule, swindles. It is not necessary to cover a page of a municipal daily with a display advertisement in order to sell shares which possess any real merit. Good things don't go begging. Any man who has a really demonstrated **mine** for sale can find a buyer, or development capital in Wall Street inside of twenty-four hours, without printing a line in the newspapers. A **prospect** is a different affair.

But the chief danger to the speculator and investor lies in listed stocks. Many of these shares have just enough merit to make them attractive. Men who are shrewd enough to detect the advertised swindles, fall a victim to such stocks as Trinity and Amalgamated Copper. As the two Companies mentioned are more popular than any others just at present, I shall speak briefly about both.

First—Trinity—

This stock is given publicity at enormous expense in the daily papers by a Boston financier. Who pays the thousands of dollars a day that this advertising costs? And why? Where is the supply of stock which the small investor buys coming from? Stop and think.

Mr. Lawson is a very smart man. He is careful to keep a constant proviso in his printed prediction. He says such and such things will happen if the price of Copper (the metal) remains at present figures. Certainly, but the price of Copper will not remain at these figures and when the decline begins the price of Copper will decline faster than will the cost of labor and equipment. Let me reproduce a few figures I compiled for a prominent financial publication a short time ago, in order to illustrate what can happen to metals.

> "In 1902 the Amalgamated Copper Co. earned $13,511,242 net; in 1903, they earned $6,486,528 net. In 1902 the U. S. Steel Corporation earned $133,308,764 net. In 1904 they earned $73,576,522 net."

And when earnings were at their pinnacle stocks began declining, just as they began advancing when the low ebb was reached. People point out the fact frequently that the uses of Copper are increasing daily and that overproduction cannot occur. For the sake of those who do not know or remember, I will say that this line of argument is exactly similar to that which prevailed when Copper stocks were selling at their highest prices in 1902.

I have said that Mr. Lawson is a smart man. I do not wish to make any attack on his personality, but as a market adviser, what can we expect of a man who organized a pool a few months ago when Amalgamated was around 80, to sell the stocks short because it was only worth 36. And now with the stock selling thirty or forty points higher, he says it will go to 150. It did not go to 36 and will not go to 150.

As to Amalgamated Copper itself, I think it will sell as low as $75 a share in 1907. I cannot give all my reasons for this belief in the limits of this letter but will append a few.

> 1.—The stock is widely held by a bad class of speculators.
>
> 2.—The stock is being manipulated in order to sustain the market and facilitate sales.
>
> 3.—The stock is not paying 8% in dividends. It is paying 6% and making extra distributions founded solely on the present price of the metal.
>
> 4.—The Amalgamated Copper Company carries a little Old Man of the Sea on its back. Here is a description of a modest and reserved little company about

which you probably never heard.

"The United Metals Selling Co.

"The business of this company is the sale of the output of the Amalgamated Copper Co. Capital, $5,-000,000. Surplus, $4,000,000. Dividends in 1905, 20%. No bonds. Directors, H. H. Rogers, Wm. Rockefeller, A. Lewisohn, Jesse Lewisohn, C. P. Olcott."

Capital, $5,000,000; Surplus, $4,000,000; Dividends, 20%; no stock for sale and every pound of Copper sold by the Amalgamated Copper Co. is handled by the United Metals Selling Co.

Comment is unnecessary.

I may sum up by saying that I would not buy Copper stocks at present prices, and that short sales of Amalgamated will show a handsome profit before long. I would advise letting Trinity severely alone, there is great danger of manipulation in these shares.

The General Technical Position

While there is some day by day shifting of shares among professional speculators, the technical position has not changed materially this week. The public interest amounts to practically 40%, and the other shares are in the hands of pools and strong holders. The stocks of these pools and inside interests are for sale on every advance.

The Course of the Market

I have repeatedly said that I do not pretend to guess fluctuations of a point or two. Such guessing is neither possible nor necessary. I am, however, decided in my views that we will have much lower prices for stocks and strongly advise sales on every rally.

Would sell New York Central, Pennsylvania, Reading, Union Pacific, Amalgamated, Steel Common and Smelters.

SPECIAL LETTER

Scalping

February 14, 1907.

There are many different methods and degrees of scalping. The word is supposed to express all the forms of trading between the "Chaser of eighths" and the man who operates for a profit of several points.

Scalping operations are more common than any other form of trading. There are several reasons for this. Many people consider the market a machine and base operations on pictures of the past, i. e., charts. These misused and mischievous instruments show so many opportunities of profit in movements both

ways that the unsophisticated trader see what was possible, while what was probable is overlooked.

Again, the desire to scalp is helped along by impatience and greed. The small trader will grow disgusted if there is the slightest delay. Dullness is unbearable to him. Also, he will frequently close good commitments merely for the sake of "seeing the money." I have seen many traders "clean up," receive a check which was of absolutely no present use to them, gloat over it for a while and pay another commission to replace the trades. Ridiculous, but true.

I may say, as a general principle, that I consider scalping the poorest form of trading. It involves the continued multiplication of commissions, and constant personal attention. I know of but two men who have made any considerable amount of money by scalping methods. They are exceptionally fitted for this form of trading and have the ability to take a small loss quickly. This is a trait which is very rare among public traders. A man will usually accept a small profit for no other reason than it **is** a profit and will sit stubbornly on a loss for no other reason than that it is a loss.

The man who has reason to believe that a stock will advance or decline ten points, will, in nine cases out of ten, realize more profit by merely making his trade in the stock and going about his business until he considers it wise to terminate the contract. I have tested this theory experimentally many times by basing personal operations parallel with those of my more active friends. Sometimes the result has been laughable. In one case, some years ago, on a ten point advance in Manhattan the gentleman who was trying to demonstrate to me that he could make more money in active operations than on a fixed commitment, actually ended his campaign with a loss. This is, of course, an exceptional case but I will say decidedly that most traders will do better, make more money and suffer less loss of time and less annoyance by abandoning scalping tactics altogether.

This view will no doubt cause my friends in the brokerage business much wrath and indignation. They naturally prefer to have ten commissions rather than one and I fear that in many cases they recommend scalping tactics for no better reason than the one mentioned.

That constant and repeated operations are disastrous is pretty well shown by the remark of a successful "Bucket Shop" man: "I don't care what they do or what the market does, if I can only keep them coming up to the order windows every few hours," said this gentleman. And he was right, for the ordinary scalper is no more than a gambler, basing his operations on possible variations and paying a great percentage.

But if one will insist on scalping, it may be well to examine the subject from the other side and see how the least of the

evils may be chosen. Without recommending the practice or qualifying the views expressed above, I will therefore give my idea of the safest methods of scalping.

The man who attempts to operate on both sides of the market during the same period, is the most deluded individual in the speculative world. I have already stated that I have only seen two traders, out of thousands I have observed, who could do this with any degree of success. These hybrid Bull-bears are certainly not working on any definitely formed opinion of the future. They are worse off than even the traders who are unchangeably and constitutionally wedded to one side of the market the year round. These latter prejudiced and inflexible individuals will occasionally have a turn in their direction, whatever their position may be, but the Bull-bear will go from one month to another, never seeing anything more than a temporary gain.

It is important, therefore, that the active trader should form his ideas, base his views on something, and, if he wishes to entertain himself with repeated operations, map out a plan of campaign which shall be, at least, intelligent in its original conception.

Perhaps the easiest way to illustrate this is to take the present market as a hypothetical case. I should say most decidedly at present, that the best form of active trading would be to adopt a fixed policy of selling on reactions and accepting profits whenever the market becomes dull after an active decline. Dullness, after either a sharp advance or decline may be accepted as a tolerably fair indication of a more or less prolonged reversal. Such surface indications are, however, by no means reliable or infallible.

Just how successfully the plan suggested will result, depends largely upon the alertness and understanding of the individual who engineers it. If the active participant is easily moved from his position by changes of a point or two against him; if he is easily frightened by wild rumors and inspired talk; if he expects to gain thousands in a few days by venturing hundreds, or if he believes that he can operate in stocks so shrewdly as to guess high or low points within a dollar or two a share, he will meet with disappointment and loss. If he can overcome these drawbacks, he may do very well as an active trader, but in closing I wish to reiterate my view that the man who takes a position on the market and retains it will make more money than the scalper.

As a test question, let me put this inquiry to the active traders who read this letter:

"When you have been correct on a certain movement of say ten points, and have made repeated operations, did you make any more money, or as much, as you would have realized on a single trade showing a ten point profit?"

WEEKLY LETTER

February 16, 1907.

The operations in stocks for the week have been almost entirely professional or semi-professional. There has been some scattered public trading, almost all for the long account, and some selling by inside holders of certificates held for investment for over two years. On the whole, I may say with confidence that the selling was much better than the buying.

The speculative talent underwent, through the week, one of those entirely inexplicable reversals of sentiment to which it is subject. The blueness which tinged the financial air last week was replaced by roseate views. This general change naturally brought about some advances by its own force, but they were limited in extent. Anaconda, a hippodromed football of the Street, was rushed up and down just to make a moving picture on the blackboard. Its high price makes it a conspicuous figure-head in the copper group and such movements as that of Wednesday are unquestionably of great assistance to those who wish to dispose of Copper stocks in other quarters.

I want to say that I am more and more satisfied that Copper (the metal) and consequently all the shares founded on that industry are on the eve of a decline. The original holders of these shares feel about the same way—they want to sell their holdings so badly that they are covering whole pages in the newspapers with advertisements which can, in the last analysis, mean nothing more or less than "Stocks for Sale." The man who adverties anything for sale, from a saloon to a share of stock, will invariably tell you it is a good thing, but he wants to **sell** it.

What are we going to say about a stock like Trinity, which broke to 34 yesterday on sales of 550 shares? What would happen if there was a general selling movement?

It seems that it is impossible to convey the idea to many people that speculation does not mean the present. In fact any such interpretation of the word is a simple contradiction of terms. Look at the definition in the dictionary. It is necessary to touch on this phase of the subject again and again. I receive letters every day calling attention to our prosperous times and good railroad earnings. Of course, I know what the railroads are doing and what general conditions are. I also know that all this is already covered in present prices of shares. Does anyone think for an instant that a fact or a condition bearing on the value of corporate properties is overlooked by Wall Street, that aggregation of the brightest and shrewdest financial minds in the world. No—the market is the market, fixed and determined by good judges of value and departing only from these normal figures in anticipation of the future.

Also, people point out the fact that earnings are far in

excess of dividend requirements and that this permits of dividends being maintained. Certainly, I have never contended that there was any probability of dividends being reduced in the near future. But, let me ask you to look over your statistics and see how far it is possible for a market to swing without any change in dividends. Look at Steel Preferred, with its seven per cent. **Cumulative** dividend, dropping over 40 points; cutting its selling price practically in two, without reducing its dividend at all. And this stock was no exception.

Again, it should be understood that no company can consider more than 50% of its surplus earnings as applicable to dividends. Union Pacific, for instance, is paying 10% and claims to be earning 20%. That's all right—now how about the future—that's the whole question. And let me call attention right here to the fact that Union Pacific proper is not earning 20%. The last dividend, like that of six months ago, was declared 3% out of surplus earnings and 2% out of income from investments, or for the year 6% on Union Pacific proper and 4% on income from investments. That makes a difference, and a very marked one. If Union Pacific proper was earning 20% and conditions shaped themselves in such a way as to adversely affect general values 25%, the corporation would not suffer so much from the depreciation, if it affected their own capitalization only.

I will say it again—the present has nothing to do with speculation.

I am convinced of the fact that railroad earnings will fall off sharply in the near future. I also believe that while most commodities will continue to advance in price, Copper (the metal) has been pushed to its limit and will decline.

The Technical Situation

The technical situation has grown a little worse during the past week. The change of sentiment already mentioned brought in some little public buying and the stocks purchased were mostly supplied by large holders. In getting at the technical position of shares, it is necessary to base views entirely upon barometrical evidence. That is to say, the known holdings and operations of a large number of speculators and investors are consulted, and considered a fair indication of the whole. This is the best and, in fact, the only way to arrive at any dependable information on the subject. The clearing house is subject to too much concealment and trickery.

Out of a very large correspondence, I have only four letters from traders who are short of stocks; this looks even worse for the technical position than I had believed. Everybody seems to be carrying something either for cash or on margin. This is accounted for by the matter already discussed—the public is **speculating** on **the present.**

I think practically 50% of the floating supply of speculative shares is now in public hands. The pools and semi-professional traders (a bad lot, by the way) have perhaps 15% of the balance. The rest are for sale by people who can help sustain prices when necessary and who will not allow any panicky breaks until they are out of the woods. I may explain that the technical conditions outlined above, which are approximately correct, absolutely prohibit a bull market. Any great advance now, means that these public holders would liquidate. If they did, their holdings would go back to the big men—Oh, no.

In my opinion, the very best and safest method of trading is to sell on reactions and average.

We are on the eve of a big decline.

WEEKLY LETTER

February 23, 1907.

The week in the stock market has been featureless so far as news of importance is concerned. The rally which occurred last week was about wiped out and much of the bull feeling has evaporated. That large class of speculators whose ideas change with every change in the direction of prices are now bearish. In this regard it may be said that people who shuffle about in this way are irresolute only because they have no fixed opinion in which they themselves have confidence. No market ever goes one way continually and the man who bases his opinions on knowledge and sound reasoning will not pay any attention to reactions.

I have again carefully reviewed the general situation and find nothing to warrant anything but lower prices. The money situation, which I shall cover in a special letter next week is in such shape as to absolutely prohibit a legitimate bull market at the present time and there is no hope of material improvement in money affairs in the near future. So far as a manipulated bull market is concerned, I consider that equally improbable. There is already a large scattered long interest among public traders and investors and any considerable advance would find much of this stock for sale. Any attempt to bull the market at present would defeat its own purpose. Also there is too much division of interest among large holders. If one bull party should advance prices, they would get some pretty big blocks of shares from their own compatriots, and they know it.

In reviewing the present situation I have endeavored to overlook nothing and to give each point, good or bad, due consideration. There are many phases to the question; the technical position, the placing of securities abroad, the Interstate Commerce Commission's inquiry into Mr. Harriman's affairs, State legislation against railroads, the condition of the iron trade, possible tariff agitation, the Aldrich bill, the money

situation, etc. Look them all over and see what you make of it.

Far more important than all other features combined are the money situation and the possible falling off in the steel and iron trade. The most favorable news in other directions could not possibly offset bad conditions in the two directions mentioned. There are many things to indicate a reversal in the metals industries. Cancellations of orders are apparent for the first time in several years. These withdrawals are not extensive as yet but they are straws that show which way the wind blows. The abandoning of projected extensions by railroad corporations is another thing which must be reflected in the steel and iron trade. Do not be too sanguine about the future of this great industry because of the enormous earnings recently published. Don't try to speculate on the past. And do not attach too much importance to the huge bookings which it is supposed will work the mills to full capacity for a year or more. We had all that talk in 1902, and in 1904 the earnings of the United States Steel Company and the Amalgamated Copper Company had been cut square in two.

As a good many of my friends are still writing me about Trinity, I will touch briefly on this stock again. So far as its future action goes, I do not wish to hazard a guess. It might do anything, not on merit (it has none), but on manipulation. It is a stock which could be easily rushed up on a few thousand shares, but there would be no opportunity to sell on such an advance. I will say most emphatically that the best thing to do with Trinity is to let it alone. There can be but one ending to such a campaign. There are plenty of good stocks in the market, whose fate and capital stock are not carried about in one man's vest pocket. Let it alone.

Another copper stock which has been doing some ground and lofty tumbling this week is Anaconda. This stock can be twisted about very easily, as it is closely held. Its apparently wild fluctuations and high price has kept the average public trader out of it, and on this head let me call attention to something that is near at hand, the import of which might easily be overlooked.

Anaconda will shortly be traded in on the New York Stock Exchange on the basis of its own par value, $25 a share. This will divide its present price by four and the stock will be quoted around $70 or $75 a share. This action will also diivde its market fluctuations by four and a movement of one point will represent four points on its present basis.

All this in reality makes no difference, it is only a change of form, but it will make a difference and a very marked one in the attitude of many public speculators towards the shares. Hundreds of traders, who care nothing about real values and

conditions, will dabble in Anaconda at 70, moving in reasonable limits, who will not touch it at 300, subject to erratic changes. It will be much easier to sell the stock to the lambs in its new form than in its old. To cite a parallel, we may revert to the Cordage Trust. The stock of this concern selling at 145 seemed too high to the ordinary speculator. The capitalization was therefore doubled and at $70 it became a public favorite. It never reached 75, but it did manage to go 15 points below nothing. I remember public action in this case very distinctly and I will predict that Anaconda at 75 will become a trading favorite. Watch it, also let alone or sell it short.

The Technical Position

From inquiries made yesterday I am inclined to think the technical position has grown worse this week. I am rather surprised at this, as I had imagined that the decline had improved it slightly. It appears that a good many people purchased stocks on the decline. There was some averaging, some new buying and very little short covering. The change is slight, however, and I will not change my last week's estimate, —50% in public hands; 15% with pools and semi-professional traders and the balance in the hands of the big men. Some stocks were also taken for support. A little Union Pacific around 172 and some Reading around 122 and 121. There are supporting orders in Union Pacific at about 169, and, so far as I can determine, none in Reading at present. I would not pay much attention to these supporting orders. They might either be reduced, broken down or withdrawn.

I see no reason for changing or modifying my recent advice to sell on rallies and average trades. Any advance that may occur will be purely artificial and shortlived. It may, perhaps, be better to limit operations to high-priced rails, particularly Union and Southern Pacific. Such industrials as Amalgamated Copper and Smelter Common will sell much lower, but there is more danger of a limited manipulated advance in these shares than in the rails. I do not anticipate anything of the kind, but in selling them, make trades in very moderate amounts and be prepared to protect and average.

SPECIAL LETTER

The Money Situation.

February 27, 1907.

It may be set down as an unalterable fact than no sustained bull market in stocks is possible unless money conditions are favorable to such a movement. This is particularly true if the general level of stock prices is high. Good or bad monetary conditions usually precede the actual rise or fall of stocks, and a careful examination of such conditions is of incalculable value

in forming an opinion as to future movements.

It is the practice of many speculators to scrutinize the bank statement wholly for the changes shown in increases or decreases for the week. They seldom go behind these returns and examine the more important showing of totals. They appear to think that an increase in reserves, deposits or the cash items (specie and legal tenders), or a decrease in loans of a few millions may be considered a fair guide as to future fluctuations. These trusting individuals are pinning their faith to most insufficient and incomplete reasoning. "A little learning is a dangerous thing."

It is true that these weekly changes may show improvement or retrogression in some slight degree, but it is folly to accept a mere mitigation of a bad situation or an insignificant reaction in a good one as a guide to market movements.

As an example of this, it may be stated that our last bank statement shows the loans to be in excess of the deposits while specie is only about 17% of loans, a very bad showing, which could not possibly be made a good one through any little improvement in a single week's changes, particularly when such improvement might be cancelled in the next statement.

Again, special influences frequently make a false showing in the week to week exhibits and these must be given due consideration.

In order to illustrate the importance of the money situation and the fidelity with which market movements have followed monetary conditions, the following records are set forth, covering important movements of recent years.

In 1890, twenty stocks listed on the New York Stock Exchange were selling at an average price of about $87 per share. The percentage of loans to deposits was about 95% and the percentage of specie to loans about 20%. In November of that year, loans advanced to 102% as compared with deposits and specie declined to about 18% of loans. The stocks mentioned declined to an average price of $64 per share and later in 1901 to about $61 per share. From 1891 to 1893 there was some alternate improvement and retrogression in money conditions, all of which was accurately reflected in stock prices.

In 1893, the proportion of loans to deposits rose to about 109% and proportion of specie to loans declined to 13%. The average price of the twenty stocks reached about $47 per share. (The panic of 1893).

In 1894, the proportion of loans to deposits fell to 80% and specie to loans rose to 30%. This was due to the liquidation of 1893. Stock prices showed some betterment, rising to about $57 per share. The severe drubbing of 1893 had made public investors nervous and had in many cases incapacitated them for stock market operations. That was to come later.

In 1896, the proportion of loans to deposits rose to 102%,

and specie to loans fell to 10%. Stocks reached their lowest level in July of this year ($42 per share for the 20 stocks mentioned).

From 1896 to 1898, a gradual improvement was apparent. Through all this period stock prices faithfully reflected money conditions. In July, 1897, the proportion of specie to loans rose to 30% and loans to deposits fell to 83%. Stocks began advancing, and in March, 1899, the average price of the 20 stocks considered was about $85 per share.

In June, 1900, the average price of the 20 stocks considered was about $75 per share. The proportion of specie to loans was about 22% and the proportion of loans to deposits about 90%. From January, 1901, until September, 1902, money conditions did not improve, but stocks continued to advance. There were large crops and a general wave of expansion and prosperity swept the country. In September, 1902, the proportion of loans to deposits was 99% and the proportion of specie to loans about 17% Meanwhile stocks were high—$128 per share for our 20 stocks. Conditions, though temporarily ignored, asserted themselves in 1903, and in September of that year the average price of the 20 stocks was about $88 per share; the percentage of loans to deposits 101% and specie to loans 19%. The money situation had not changed materially, but the stock market was making a deferred payment.

In August, 1904, the proportion of loans to deposits had fallen to 90% and specie to loans had risen to 25%. The stock market was steadily advancing, and in January, 1906, stocks reached their pinnacle—$138 per share for the 20 securities considered.

And this brings us down to January, 1907. The proportion loans to deposits is about 102%. The proportion of specie to loans is about 17%.

The average price of our twenty stocks is about $130 per share.

What is the use of talking about a bull market, a "Spring rise" or manipulation in the face of such conditions as this.

Space limitations prevent my going into full details of all the minor changes which have occurred in money conditions and their effect upon stock market operations. I have, in the foregoing, given only the important movements. These figures are, however, sufficiently significant to convince anyone who cares to give a little thought to the matter, that no bull stock market can be possible at present. The situation may improve rapidly. I hope it will. I would much prefer to write an optimistic letter, but we want the truth and if it lies buried at the bottom of a well, there is nohting to do but get down into the well and dig it out.

There are numerous other influences bearing upon the

future of the stock market. They will be discussed from time to time in the order of their importance.

I will take occasion to say again that it is useless to attempt to speculate upon the day to day influences which crop out in the stock market. A careful digestion of such matters as the one set forth in this letter will do more to guide the speculator and investor to success than all the "tips," "charts" and "inside information" obtainable from any source. It is the only way. The man who makes a decision as to the future of prices based upon hard facts escapes the most pernicious influence in the speculative world—indecision. He does not turn bull at the top and bear at the bottom—he has a fixed line of policy, he follows it and he succeeds.

I strongly recommend sales of stocks on all rallies.

WEEKLY LETTER

March 2, 1907.

The week has brought forth little news of importance. The Aldrich bill may now be considered as practically adopted in its present form and is therefore dead as a sentimental factor. The measure will no doubt help money matters some, but taken altogether, it is wholly inadequate.

The principal features which will have a bearing upon speculative movements in the near future are crops, money conditions, comparative earnings, the course of the metals markets, the investigations conducted by the Interstate Commerce Commission and general business conditions.

So far as crops are concerned, it is too early to prophecy. I cannot see, however, that any portion of the recent decline can be logically attributed to fear of crop failures or that a promise of good crops can be considered anything more than a neutral factor. Numerous writers are expressing the view that good news from the grain-raising localities may start a bull movement. I cannot see it. Normal crops are to be expected. There is no more reason to anticipate bad crops than good ones. I do not think favorable crop news would do more than give a sentimental fillip to the market, and on the other hand, any bad news would certainly add to the weakness of a situation already badly strained.

Money conditions I have already discussed, in my special letter of February 27th. Earnings will be made the subject of a special letter next week.

The metals markets show no marked signs of a decline, but we must, in forming speculative opinions, ignore the present and devote attention only to the future. The optimistic utterances of men high in the councils of such companies as United States Steel do not impress me favorably. These utterances are too much like those of 1901 and 1902. We heard none of it

when stocks were selling at bargain prices and an improvement was not only probable, but certain. The fact that the allotment of preferred stock of United States Steel was oversubscribed by the employes of that corporation is also being pointed out as bullish. Permit me to call attention to the fact that after the first participation of this kind by employes (I think at 96), the stock declined below 50. Copper (the metal) must suffer from increased production before long—I have already discussed this feature.

That the railroads have a hard time ahead of them is a foregone conclusion. The very fact that they are contracting business and abandoning extensions is proof of this. Aside from the probing they must undergo, net earnings are declining and proposed state legislation is adding to their burden.

The Harriman investigation has absorbed attention in Wall Street this week. For some unknown reason, speculators appear to think Mr. Harriman came off with flying colors. It was shown, however, that he and his crowd made over $23,000,000 in the Alton deal; that in all probability he owned some of the stock which he sold to his own railroad, and the financier frankly admitted that Union Pacific interests sold the stock freely last Autumn. This last feature is a bitter pill for the speculator. Enthused by the large dividend and the rosy predictions, he bought Union Pacific, and now, when the price is some fifteen or twenty points lower, he is informed that he bought from the insiders.

It is my opinion that the Harriman investigation is important in an indirect way. It will stimulate other investigations.

General conditions, while still good, will in the opinion of unbiased and competent thinkers, soon suffer a relapse. The holders of stocks will not await this relapse before selling, they will sell now, and for that matter they have been selling quietly for six months.

The Technical Situation

I do not find any improvement in the technical situation through the liquidation of this week. In fact, I do not believe there has been much liquidation except by weak pools. Public holders of stocks are always stubborn and very few of them can be driven from their position by such a limited decline as has already occurred. And let me say, in parentheses, that the general idea that the public has no stocks is entirely erroneous. I know from a large and diversified correspondence that many people are holding a few hundred shares of stocks. This is not much in individual cases, but when I am able to trace thousands of shares to my own correspondents, it is safe to assume that, in the aggregate, public holdings are large. It is from information of this character that I make an estimate of

the location of shares and it is bound to be near the truth.

The general technical situation has been weakened since my last estimate by inside selling of a very high character. This is particularly true of the high-priced dividend-paying rails. Fifty thousand shares of Union Pacific sold on Wednesday and Thursday came right out of strong-boxes and most of it is in the Street. The men who are selling these stocks, however, are not going to smash prices, they will even extend support when necessary. It takes time to liquidate large holdings intelligently —time and manipulation.

There is something of a short interest in the market, mostly of a poor character. The big bears prefer to see a further rally and may get it at the expense of the late sellers, but such a rally will be limited in both time and scope.

I will revise by barometrical figures as to the location of surplus shares as follows:

55% in public hands.
15% in pools and semi-professional hands.
30% held by insiders.

The Nevada-Utah Affair

It does not require much analysis to get at the bottom of the sensational advertising in regard to Nevada-Utah. It is a very shrewd bit of work. "Don't buy now at 6 or 7, wait till I give the word and then pay fiften or twenty if necessary. Personally, I have bought a lot but don't you buy till I say 'go.'" This is the substance of the advertisement, and well the brilliant man who framed it knew that nothing he could possibly say would induce so much buying as has occurred. The woods are full of over-bright people who bought just because they were told not to do so. The action of the market for these shares proves that beyond a shadow of a doubt. The aforesaid over-bright people argue thus: "He says, by inference, not to buy until the price is higher. He certainly would not advertise this stock unless he meant to follow it up; we will take time by the forelock and get in now." All right, but Mr. Lawson knew people would figure just that way. I said in my special letter on Trinity that he was a smart man.

And let us inquire why he advertised this stock at all when the positive knowledge of its value, according to his claims, was only a matter of a few days. He explains this point in a recent advertisement, but the explanation is so specious and involved as not to warrant the respectful attention of any thinking man.

I stated in my daily letter of the same date as his first advertisement that the newspaper statements that F. Augustus Heinze was interested in Nevada-Utah were erroneous. Mr. Heinze has none of the stock and no interest in the company.

Nevada-Utah may go higher, but it is a dangerous gamble. Let it alone.

I see no reason to change my views in any way. I strongly advise sales of all high-priced dividend-paying stocks; rails or industrials, on every rally.

MARKET LETTER

March 9, 1907.

The market followed reasonable lines during the early days of the session, but was enlivened Thursday by a squeeze in Reading. This movement was, so far as as it is possible to ascertain, founded upon nothing more tangible than manipulation and the action of frightened bears, but was, as usual, accompanied by many wild rumors. The most potent of these stories was the one claiming that E. H. Harriman was "buying heavily for control." No one stopped to consider the fact that Harriman is already in a position, indirectly, to control the vote of about 44% of Reading Stock and that such sensational "buying for control" would have been wholly unnecessary.

It appears, however, that Mr. Harriman's name is one to conjure with, and as every movement in the market is attributed in some part to him, it may be well to discuss this phase of the speculative situation briefly.

It has been a matter of repeated history in Wall Street that the great leaders attract most attenion **after** their great performances. An admiring public is told what the great Genius has done, how he has made millions upon millions, reconstructed debilitated enterprises and created business where none formerly existed. The aforesaid public looks on and wonders; they also stand ready to follow the future enterprises of their new Daniel—he usually lets them do so. Mr. Harriman is even today patting the public on the back and telling them he now sees the right way—he will take the public into his confidence. He will make them his partners. Possibly this explains why a few months ago, he gave them a 10% dividend on Union Pacific with one hand and sold them stocks with the other. He was taking them into partnership. True, prices are now twenty points lower, but Mr. Harriman will take back the stocks—in time. He talks like Lawson, without the bubbles.

Not to go back beyond the memory of the ordinary speculator, I will call attention to Mr. Morgan's career. When the Steel Stocks were selling at very high prices eight years ago, no other name was worth while in Wall Street or its arteries. Morgan—he was the God of finance. The public worshipped at his shrine as they now worship at Mr. Harriman's. The public bought his Steel Stocks, Mr. Morgan did not advise them to do so; neither did Mr. Harriman advise anyone to buy Union Pacific. Anyway, they bought. We know what happened. Mr. Morgan and the inner circle bought back the Steel Stocks

somewhat later and for many years we heard little of him as a Daniel. The parallel is quite distinct. Mr. Harriman's name can, on a mere rumor of his participation in a certain Stock, enthuse the public and scare the bears to death.

Beware of the Greeks bearing gifts.

One of the features of this state of affairs which it is difficult to understand is why the public will continue to follow faithfully a man who has just acknowledged that he dumped them, and that he increased the indebtedness of a property by almost a hundred millions without adding anything to its assets. On the other hand, the utterances of Mr. James J. Hill are greeted with a derisive smile when he suggests that we are on the eve of a recession in business. It mus be submitted in all fairness that Mr. Hill's past prophecies have usually been pretty sound. We cannot forget that in 1902 Mr. Hill called attention to our undigested securities and that in the earliest days of 1903 he made the same statement as he made recently, i. e., that we were near the pinnacle. Then, as now, he was not believed —people didn't want to believe him—but he was eminently correct.

There is another feature of the present situation which is being widely heralded and much over-estimated at present. That is the talk of Stocks reaching an investment basis. Financial writers of all degrees are pointing out the fact that certain securities are reaching a basis which will attract investment funds. These writers invariably use this statement as an argument that the downward career of the Stock Market will be stopped by this influence. One writer says, "We are now reaching an investment level and as the returns grow more attractive with each point decline, prices cannot go much lower."

The fallacy of such reasoning as this is at once apparent. The writer says in effect that there never was and never will be a period when Stocks would decline far below an investment level. If his logic was sound, no great decline could **ever** have occurred, as it would have been stopped by stock prices getting below an investment level. Of course we all know different—we have all seen Stocks on a basis of 10, 12 and even 15% returns on money.

The question is not whether Stocks are at a level where they will "pay their way" or yield a fair rate of interest, but whether funds are available for speculation and investment; whether money conditions will permit of any campaign for higher prices, and last, but not least, whether the men who have recently sold large holdings and are still selling them, are going to take them back now or wait for a big bargain counter sale. They usually wait. If we could go upon the hypothesis that every decline would be halted at or a little below an investment basis, speculation would be so simplified that it would cease to exist.

Every little day to day change in this market is the subject of speculations and excuses which are usually wholly specious. One may travel from one brokerage office to another and hear the groups around the tickers talking of Harriman, the short interest, the buying or selling of certain individuals, etc., and not a word of **real** conditions. Most of these Solons could not tell the state of the money market, that all-important feature, to save their lives. The decrease in net earnings are noted but not weighed; the fact that corporations are seeking capital and securing it only by strenuous means is overlooked. What is the use of talking about bulling the Common Stocks of Corporations which cannot borrow money on bonds?

The Technical Situation

There has been little change in the technical situation this week, certainly no improvement. I think the fizzle in Reading weakened matters considerably by reducing the short interest and creating public buying. I am certain that Commission house orders were larger on Thursday than on any day for a long period. I shall not change my figures, however, 55% of surplus Stocks in public hands, 15% in pools, etc., and 30% held by insiders. In this regard I wish to explain that by public hands I mean not only the small outside traders, but also the public of the cities—New York especially. There are more lambs right here in New York than anywhere else, it is their native grazing ground.

Before closing this letter, I will impose upon the reader's time with a brief personal explanation of my position on Stocks. A great many of my friends appear to think I am a natural bear. Nothing could be further from the truth. I very much wish to take the other side, but we must look conditions in the face. We cannot afford to let our ideas be governed by our wishes in this great game. Others ask me if I am not going too far and when I intend to turn. To the first part of the question I will reply that I have tried to modify my views rather than magnify them; to the latter part I reply I do not know. When there is a fair promise of better times; when liquidation s complete; when the money situation improves, and when earnings promise better I will begin to counsel caution and later active operations on the long side. Certainly I shall not change because of rumors, canards or personal pressure. Most of my correspondents have read my magazine articles and books and know that I dislike short selling, but there are exceptions to all rules.

I strongly advise sales of stocks on all rallies.

Note

On March 14, 1907, the following telegram was sent to all subscribers:

"Abandon position on short side temporarily, but do not buy for long account."

My reasons for the qualification will be found in the following weekly letter.

WEEKLY LETTER

March 16, 1907.

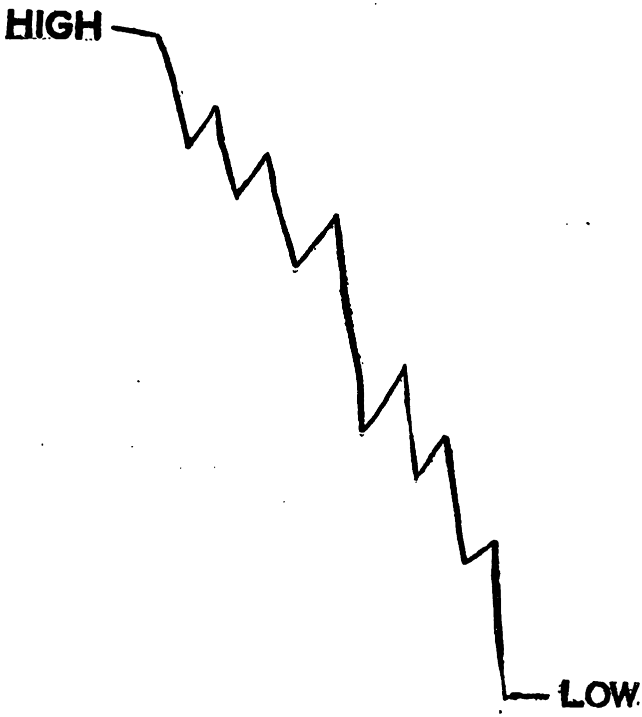
Thursday night I sent to all subscribers a telegram stating that I had abandoned my position on the short side of the stock market, but qualified this statement with the advice not to purchase for long account. My reasons for this advice were briefly set forth in the daily letter of March 14. Let it be distinctly understood that my change of attitude is entirely temporary. There is no marked improvement in the fundamental conditions which have brought about this decline, and I am firmly fixed in my conviction that we will have lower prices—much lower prices.

There are periods, however, in every long swing of prices, either up or down, when matters are overdone by the speculative element; when the trader is in bad company; when the successful party becomes drunk with money and success and when human nature and human weakness leads the ordinary speculator to excesses which lead to final disaster. Such a period is now near at hand, and I consider it a far wiser policy to step aside for a while and become a mere spectator. Possibly prices will be further shattered but it is better to quit too soon than too late. The speculator who tries to reap the last few points of an advance or a decline will eventually be punished for his greed.

It seems to be difficult to make some people understand that there is a great difference between accepting profits after a successful campaign and reversing their trading position. My first weekly letter was mailed on February second and in this letter I endeavored to show the fallacy of this view. As this letter was received by only a few subscribers I am moved to reproduce the matter. It will not hurt the people who have already seen it to give it a second examination.

Here is the illustration:

"Sales on advances are the only safe commitments just at present. It may appear that if the market is to sway back and forth, sales on advances and purchases on declines would offer the maximum of opportunity to the shrewd trader. But not so. Let me illustrate this. A market movement from high to low prices, as shown by a chart, is about as follows:



"As simple as this illustration may appear, it is worthy of most earnest consideration. True, the upward and downward movements show opportunities on both sides, but if the **purchaser** makes a mistake, as all speculators will, he is hopelessly involved. If he buys at the wrong point he will never see daylight during the progress of the movement. Look at the other side of the matter. The seller cannot make a mistake. No matter at what point he sells a profit lies before him. A little reflection will show what a tremendous difference exists here."

I think this will make it clear that there is a difference between accepting profits and putting money in jeopardy.

Another phase of the present situation is the continued talk about the extremely low prices which prevail at present. It seems incredible that when statistics are always available people should lose sight of all tabulated history more than a year old.

They figure now from what has occurred in the way of a decline and do not consult the previous advance. To illustrate this let me give a few figures showing low prices of stocks in 1903. In examining them do not forget that there was no panic in 1903, merely a period of liquidation. The stocks chosen are not picked out on account of any individual movements but because they are representative speculative issues. As this letter is necessarily placed in the printer's hands on Friday, the low points of Thursday, March 14, have been adopted for comparison:

Stocks.	Low in 1903.	Low March 14, 1907.
Amalgamated Copper	33⅝	80
American Locomotive	10½	58½
American Smelting & Refining Co.	36¾	110
Atchison, Topeka & Santa Fe.	54	82⅝
Baltimore & Ohio	71⅝	95
Brooklyn Rapid Transit	29½	45¼
Canadian Pacific	115⅝	167
Chesapeake & Ohio	27¼	38
C. M. & St. Paul	134⅝	125
Colorado Fuel & Iron	24	29
Erie	23	27½
Louisville & Nashville	95	110¾
New York Central	113⅛	111½
Norfolk & Western	53¾	71
Pennsylvania Railway	110¾	114
Reading	37½	91
Southern Pacific	38⅝	69¾
Union Pacific	67½	120¼
United States Steel Common	10	33
United States Steel Preferred	49¾	95½

The comparison of prices given above must not be accepted too literally. Specific influences have a marked bearing on this exhibit in many cases. For example: the capitalization of St. Paul was increased from $107,796,300 to $132,658,700; Baltimore and Ohio from $184,531,800 to $212,604,100; New York Central from $149,442,500 to $179,282,000, etc. This explains why many stocks are in reality much higher than in 1903, although the figures would make them appear only a little higher or even lower. These changes of capitalization, etc., will be fully covered in my special letter on railroad earnings, which has been delayed for the purpose of getting accurate figures. The letter will be published next week.

And after all is said, conditions today are infinitely worse than they were in 1903.

The Situation in Money

In these advices I have repeatedly said that money is the all-important feature. I have tried to draw attention to the fact that monetary conditions both at home and abroad are badly strained. England and Germany are as bad off as we are. The talk of permanent relief from gold imports is puerile. A few millions in gold will not help us much, and even if we drew heavily on foreign gold supplies, reflex action would have to be considered. All our stocks and bonds are not held in America.

The Technical Situation

It has been my custom to set forth in weekly letters a resume of the technical situation. This week I must omit this as matters are too much mixed to permit of an opinion which would be valuable. In a general way I will say that the atmosphere has been somewhat cleared and that floating shares are, for the moment, in stronger hands.

Conclusion

My advice at present is to do nothing. The market will be with us tomorrow and a month from now. We can better afford to wait a while than to get tangled up in a wild and dangerous market. I am still very bearish for the long pull but think stocks can be sold to better advantage later.

WEEKLY LETTER

March 23, 1907.

In my last weekly letter the advice given was to refrain from operations temporarily. This counsel was due to the fact that the market, after a severe decline and a sharp recovery, was in a position which made ordinary operations dangerous. Later in week, however, I suggested that the best method of trading would be to sell on rallies and average in case of a continued advance.

This advice is now repeated. There is nothing to look for beyond advances based upon short covering and manipulation, and such advances are not only a component part of every market but are highly desirable from the standpoint of the bears. At the tail end of a drastic movement in stocks, whether that movement be to higher or lower prices, we always find the eleventh hour participators—the men who turn bulls at the top and bears at the bottom. Against this weak element two forces are are invariably at work. The men who have stocks for sale and who are wise enough to stop selling when prices crumble too rapidly will strive to bring about a temporary advance by

working against the weaker shorts, and the better class of bears, having accepted profits, will assist in creating a new selling level. This armed truce against the unsophisticated element brings about good rallies—a consummation devoutly to be wished.

The market at present is in about the position outlined above. I do not believe, however, that the short interest has reached anything like the proportions which is popularly assumed. Most of the large short accounts of which I have personal knowledge were covered on the recent decline and it is very unlikely that all this covering has been replaced by new selling. I view with a great deal of suspicion the numerous statements of a heavily oversold market and while I believe that the present short interest is of a more vulnerable character than that of a month ago, I feel sure any movement against these weaklings will be stopped by distribution of stocks, both those bought recently for support and fresh lines put out by the shrewder bears.

Under these circumstances the very best method of trading is to sell on rallies and average. There is no need to be disturbed by the fact that these rallies will often go further than was anticipated, and the flood of cheerful news and rumors which always accompany such artificial bulges should be wholly disregarded. Under present conditions it is ridiculous to confound mere recoveries with a genuine bull movement.

It is remarkable how much talk we hear of any further declines being stopped by the fact that some stocks have reached an "investment level." Some of this patter comes from men who should know better; some of it comes from men who unquestionably do know better and who are talking up the goods they wish to sell. In many cases the statements are grossly misleading in that this "investment basis" is figured on what money was worth years ago rather than what it is worth today. As I have previously pointed out, there is nothing in history to show that a movement of liquidation was ever checked by this much-talked-of "investment basis."

There is another factor of the situation which should be given consideration. There is no room to doubt that many big holders have disposed of their surplus stocks. Others are now doing so when the occasion offers. Until this process is completed strong efforts will be made to bolster up prices now and then and support. will be accorded at crucial moments. But, remember this, after the liquidation is complete, these same powerful forces which created our recent bull stock market will array themselves on the other side and exercise their wiles and arts to put prices as low as possible. That is no new story, it is oft-repeated history and in this regard it is amusing to note how some of these magnates who "never speculate," having disposed of their holdings, strive to kill two birds with one stone. They

foresee lower prices in a natural falling off in general business and strive to create the impression that state and government interference is causing the decline. They even make submerged threats that they will stop building up or equipping their properties. After it is all over they will point back to these prophecies with one hand and buy cheap stocks with the other. A very pretty bit of work.

The Money Situation

The money situation does not improve. The superficial prophets who see only what is visible to the naked eye are talking gold imports till they are hoarse. They forget that it is the **world's** money market which should be considered primarily. Suppose we do get some gold from England—a few weeks ago the excuse for a break in stocks was bad monetary affairs in England—these reasoners wish to make it appear that if we make things worse there it will be an unmixed evil; they do not consider reflex action and they do not consider the progress of unification which draws the world's monetary affairs closer and closer together. A chain is no stronger than its weakest link.

Another feature of the present situation is the prevalent and inherent instinct of the speculator to want to buy something because it has declined. Fundamentally there is some foundation for this, we must admit that each point decline brings us nearer the bottom. But that is not sufficient. What we want to know is **why** prices are declining, whether they will continue to decline, and we can then form an intelligent judgment of the disease and an opinion as to when it has run its course.

The Technical Situation

I do not believe that there has been any great change in the actual location of shares worthy of notice. But it is reasonably certain that many stocks have passed from very strong hands into those a trifle weaker. The liquidation is peculiar in its character. The public have a great many stocks, but they are carrying them along, living in hope, rather than indulging in extensive new commitments. Meanwhile shares are coming downstairs gradually by passing from the giant to the professional pooler, from him to the semi-professional plunger and so following.

Earnings

Some time ago I promised a statement of comparative earnings covering January of 1906, as against January, 1907. At that time I believed it would be possible to obtain all the figures on leading corporations at dates specified. This I have found to be a mistake, and I do not care to issue a paper founded

on estimates or guesswork. So far as I have progressed matters are about as I anticipated. In spite of the general opinion that unusually good times have obtained, there is nothing to indicate it so far as railroad conditions are concerned. Figures for sixteen actual railroads in January, 1906, as compared with January, 1907, show gross earnings of $92,036,962 in January, 1906, versus $100,412,488 in January, 1907, and net of $22,653,567 in 1906 versus $22,940,100 in 1907. Meanwhile capitalization increased by over $110,000,000 and bonded indebtedness by over $50,000,-00. Also the position was weakened by the establishment of larger dividend rates. It may be said that the February comparisons would be much more unfavorable. A full report will be issued as soon as it is possible to obtain reliable figures.

Conclusion

I do not change my view that we must have still lower prices, and recommend sales of high priced stocks on all rallies.

WEEKLY LETTER

March 30, 1907.

In my daily letter of March 28th I advised caution in the selling of railroad stocks. In spite of careful qualifications of this view I have been quoted as "Changing my position on the market." This is not correct, as will be apparent to careful readers of this letter.

The modification of my recent advice to sell railroad stocks fearlessly was occasioned by a careful study of several factors bearing on the situation. The most important of these factors is the long and almost unbroken decline since February first. This decline has carried prices of many railroad stocks to points which make sales on anything but very sharp advances a more or less dangerous proposition. I believe these stocks will go lower and there is a possibility that they will go very much lower, but my advices are founded at all times on what I consider inevitable, not what I consider possible or probable.

I will say, however, that all stocks may be confidently sold on material recoveries. The time for a sustained advance is not yet at hand. What I warn against is following declines too far and becoming imbued with a bearish spirit which will stifle reason. It is always better to quit before the end is reached. The man who attempts to reap the last few points of an advance or decline usually gets hung up wth some bad bargains before he is through.

I recall the fact that in October, 1903, I advised an entire cessation of bearish operations and there was some grumbling by my friends because stocks went lower afterwards. It was

not until the issue of my "forecast for the year," issued on January 1st, 1904, that I took a permanent and decided bullish stand. I quote these facts to impress the necessity of patience at times.

There is another feature of the situation and a very impartant one. It is the fact that a certain group of stocks offer unusual opportunities for short sales and that operations which might possess an element of danger in rails may be confidently indulged in in another quarter. I refer to the metal stocks, such as Amalgamated Copper, United States Steel Common, National Lead, American Smelters, etc. It has been my constant contention in these advices that there must be a falling off in metal prices, and particularly in Copper. The recent break in Copper (the metal) in London and on the New York Metal Exchange is, in my opinion, the beginning of the decline. Attempts to refute this, such as we are hearing from high quarters, I let in at one ear and out the other. I heard the same talk in 1902 and at the other periods preceding a decline. Let me give an example of this talk. Referring to the breaks in the metal mentioned above, a gentleman high in the copper world said, "Reductions in copper prices in London and on the New York Metal Exchange is of no significance. The United Metals Selling Company still quotes 25¼ cents as the minimum for electrolytic."

The eminent gentleman who made this statement neglected to state that the United Metals Selling Company is a creature of Amalgamated and that it can hold prices artificially for a long time. This point I have covered fully in previous letters. I also wish to call attention to the table of copper prices given in these advices on March 26th, showing the flexibility of the price of copper. The price of the metal fell from 19½ in 1899 to 12⅞ in 1901 and to 10⅞ in 1902. Since then it has steadily climbed to its present price—25c. There is plenty of room for a reaction.

The General Situation

The general situation is still bad. The world's monetary conditions have not improved and this is in reality the greatest feature to be considered. It was the principal factor on which I based my emphatic views for a great decline in prices two months ago. We hear a great deal about the agitation against railroads being the cause of our "silent panic." Wiseacres have told us repeatedly that confidence in American railroads has been so disturbed that it is impossible to borrow money for needed improvements. Possibly 10% of this influence is genuine, as applied to present conditions. How these haphazard logicians reconcile this view with the undeniable fact that money is tight the world over does not appear. The trouble is they are diagnosing the disease incorrectly and attempting to cure it

with the wrong medicine. It is not that people won't loan money, but they can't. Take one glance at the expansion of credits set forth below:

LOANS AND DISCOUNTS FOR BANKS IN THE UNITED STATES.

1896	$3,230,800,000
1900	$4,676,600,000
1906	$8,266,200,000

Is this a healthy growth? And while we are on the subject it may be well to call attention to the continued talk about President Roosevelt "making a speech" in order to stay the flood of liquidation and depression. With all due respect to the President and his high office, it appears to me that this talk is wholly ridiculous. Belief in the efficacy of such measures grows out of bad reasoning and a confusion of thought. If it were a panic based upon sentiment, or fright that confronted us, words of hope and comfort might avail; but there is no panic. We face a condition which cannot be cured by words. No man can cure evil conditions with his tongue. As to whether or not we are approaching a crisis in business affairs is a problem. Personally, I believe we are, but as to the time of its appearance I make no prophecies. It may be of interest to my friends to know that our present conditions exactly parallel those which have preceded practically every crisis since 1745. In Theodore E. Burton's very able study of crises, set forth in his book "Crises and Depressions" he gives seven distinct periods or phenomena which precede a crisis and winds up as follows:

"Seventh, and lastly—a great expansion of discounts and loans and a resulting rise in the rate of interest; also a material increase in wages, attended by frequent strikes and by difficulty in obtaining a sufficient number of laborers to meet the demand."

Considering present conditions the parallel is pretty pronounced.

Public Holdings of Stocks

I have continually contended that the public were large holders of stocks in spite of the reiterated statement that they "were not in the market." I know from my own correspondence, which may be considered a fair barometer, that they are. Here is a bit of statistical matter on the subject.

When the books of the New York Central were recently closed, pending the Annual Meeting of April 17, 1907, the fact appeared that the stock of the Company is owned by about 10,000 persons. This is an average of 180 shares to each stock-

holder. The figures speak for themselves. The number of small holders must be very large.

The Technical Situation

There has been little change in the technical situation this week. There has been some liquidation and some buying for support. There has also been enough short covering to offset any fresh short sales. Taken altogether the situation is still weak. There will be stocks for sale on every rally. These stocks will come from three sources: Liquidation, sales of stocks bought for support, and short selling. Under the presure of these influences it will be hard to get any sustained advance.

After reading the above expressions many of my friends will wonder why I modify my bearish views at all. The explanation is simple enough—I feel that a great percentage of the damage has already been done and discounted in railroad stocks and as I said before, I do not like to wait for the tail end of a movement. The theories on which I based my confident opinion of a great decline have already been largely operative in actual market effect. In this statement I refer particularly to the rails. The metals stocks must still suffer.

Pending my Topic Letter of April 3d on "Correct methods in the present market" I will repeat the brief advice given in yesterday's daily letter:

(1) Do not buy anything for long account.

(2) Sell the rails only on very marked advances.

(3) Sell the metal stocks confidently on rallies and average in the event of a further advance.

(4) If you are already short of rails at low prices, wait for an opportunity to cover. Such an opportunity will certainly occur.

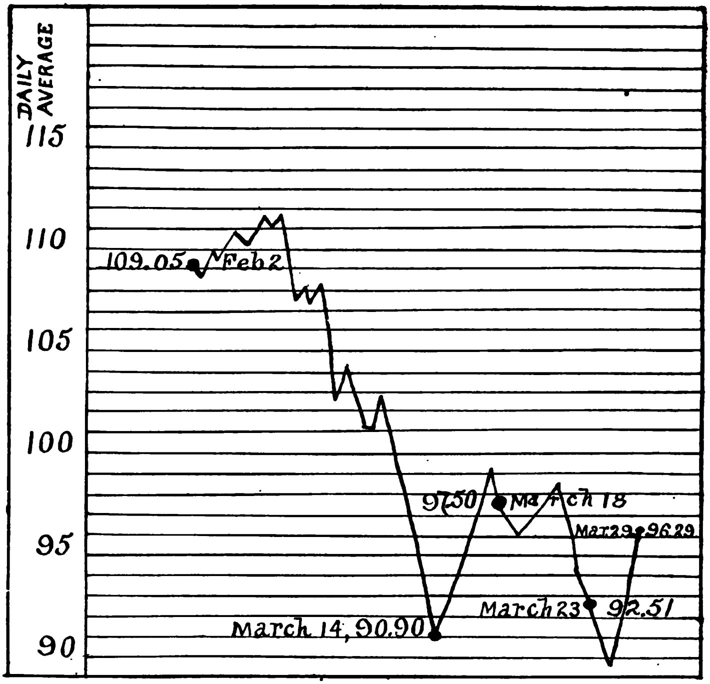
And particularly remember that there is no hurry—take your time.

Correct Method in the Present Market.

SPECIAL LETTER

April 3, 1907.

The recent rally in the stock market has resulted in trouble for a number of my friends who have been following the short side of the market. As the rally has not been either unusual or extended it must be admitted that any embarrassment on the part of the advocates of lower prices can be due to nothing but bad trading methods. The course of the general market since the date of my first advice to sell short has been as follows:



No one can glance at this chart and combat the fact that the opportunities have been for the bear, not the bull. The fact that rallies have appeared is nothing new. There was never a market without them, and so far as the bear is concerned, they are not only inevitable but highly desirable, providing always that trading is carried on along intelligent lines.

In my Daily Letter of March 29th, I gave the figures by months on Amalgamated Copper during 1902 and 1903. I picked out this particular security because it is one of my favorites as a trading stock at present. My object in producing these figures was to bring out clearly the fact that rallies of ten or fifteen points may be expected in such a stock even when it is on the downward path. It is utterly impossible to trade successfully unless this fact is digested thoroughly and utilized in such a manner as to prove beneficial instead of dangerous.

The figures mentioned are so much of an object lesson that I will reproduce them herewith and make some brief comments thereon.

In June, 1901, Amalgamated Copper sold at 130 per share; in December, 1901, it sold at 60½. These figures are, to a great extent, fictitious. Both the advance and the decline overleaped reasonable limits. The decline of 70 points was followed by a recovery of almost 20 points, and in February, 1902, Amalgamated sold at 79. This recovery was accompanied by roseate views of the future of Copper (the metal) and by a driving of shorts, together with much manipulation. After February, 1902, prices ranged as follows:

Month.	High.	Low.
1902—February	79	67¾
March	70½	61
April	68½	63½
May	71⅞	65
June	69¾	62¼
July	68¾	62
August	68⅜	65
September	71½	62⅞
October	67¼	62
November	65½	53
December	64⅝	53¾
1903—January	67⅜	62¼
February	75¼	66⅛
March	75⅝	64⅝
April	67½	60
May	67¼	56¾
June	58⅛	51
July	56½	35¾
August	52⅜	37
September	50	37⅜
October	42⅜	33⅝
November	39⅝	35⅜
December	52⅝	38

These figures show that the greatest recoveries in Amalgamated during the two years considered were about 20 points. The first rally began in December, 1901, and culminated in February, 1902. From the high point of the rally (79) Amalgamated declined to 61 in March, 1902, and rallied 11 points between March and May. The next important rally was about 10 points in August and September, 1902, and following that was a rally of large proportions (22 points) in the first three months of 1903. Then followed four months of steady decline until August, 1903, then a rally of 15 points in September; another long decline which culminated just before the beginning of the bull market of 1904-05-06.

The great lesson to be learned from these figures is that rallies must be expected and provided for. In the exhibit given the price of Amalgamtaed Copper declined over 96 points, but the decline covers over two years. It may be pointed out that the very fact that extensive recoveries occurred greatly multiplied the opportunities of the short seller. If the price had declined steadily with no material reaction from 130 to 33⅝ it is not probable that the short seller would have made much money. He would have accepted his profits on the first material decline and would have awaited a rally to replace them. If the rally did not appear he would be left entirely.

The intelligent trader in Copper during the period covered above would never have found his commitments more than ten or twelve points against him. After a break of 70 points he certainly would not sell on a rally of less than ten points and further rallies would have permitted averaging to great advantage. This is the method I have continually and repeatedly advocated. The trouble is, traders get excited when they see prices crumbling and, fearing they will never have an opportunity to sell again, they rush in at the bottom. And that is not the worst part of it; they get the "get rich quick" bee in their bonnets and sell one thousand shares where they had no business selling more than one hundred. They forget that speculation must be conducted along business lines if it is to be successful. I want to say most emphatically that the man who overspeculates, who makes rash commitments which he cannot protect, cannot possibly succeed for any length of time. It doesn't matter what the market does, or which side he trades on. He will bankrupt himself in any kind of market that ever occurred since the establishing of the stock exchange. The people who think they can "beat the game" by trading both ways in one period, or by trading so heavily as to be distressed by natural or manipulated movements, had better change their methods or quit—they are chasing a will-o'-the-wisp.

I recommend to my friends a very careful study of the chart and figures given in this letter. There is no need to multiply words about the matter, it speaks for itself. The figures on Copper show not only how easy it would have been to reap large returns from the market but also how easy it would have been to lose everything by incorrect methods of trading. I think a careful consideration of this subject will bring out the fact that much of the loss which is attributed to the manipulations of Wall Street is in reality due to the faults of the individual.

WEEKLY LETTER April 6, 1907.

It is invariably the case that when a reversal of form occurs in the stock market, such a change is accompanied by a flood

of gossip and news purporting to be explanatory of the advance or decline. This might be considered natural or even intelligent if it were not for the fact that this talk seems rather calculated to fit movements than to really explain them. It is, to a great extent, after-event wisdom founded more on the price changes than upon any occurrences of importance.

At times this method of arriving at conclusions is ridiculous. For example, in the recent recovery many elements which were earnestly touted as very bearish have been actually contorted into bullish items. We heard a few weeks ago that the only thing which could save us would be gold imports. Our first consignment of the metal resulted at once in prohibitive rates for sterling exchange, upon which the Solons of the Street cheerfully pointed out that this was a good thing, as it would create a better feeling in London. In truth there is something in this latter view, but I am not discussing the merits of the situation. I merely wish to point out how certainly the speculators follow the action of the tape rather than reason.

I will also call attention to the fact that while the market was advancing this week its upward course was threatened by an impending strike among railway employees in the West. The bulls stated emphatically that strikes were bad things to sell on. When it appeared that the labor difficulties were to be amicably adjusted the news was accepted joyfully. The rule worked only one way. In point of fact strikes are usually a poor basis for short sales, but the reason is wholly a technical one. An impending strike always incites short-selling in the property or properties affected, and this market condition offers an opportunity to the manipulators for higher prices which is seldom overlooked. To argue that labor troubles are actually or inherently bullish is simply silly.

Note also that in reversals of sentiment such as we have experienced this week, news which cannot by any far-fetched process of reasoning be contorted into good news is simply ignored. For instance, the Interstate Commerce Commission and its attitude toward Union Pacific was everything five weeks ago. They met again yesterday on the same issue and were given no attention whatever. I will call attention to the fact that when the Northern Securities Co. was struggling with Attorney-General Knox it received the same kind of treatment, and that the final decision came like a thunderclap out of a clear sky, and broke the back of an incipient bull market.

It may appear from the above remarks that I am inclined to be ultra-cynical, but such is not the case. There is, in reality, some good in the present situation. There is also a great deal that is false. Let us examine the fundamentals which have brought about the recent decline and see to what extent they have been improved.

The Money Situation.

That the money situation has recently been improved is unquestionably true. But the improvement is largely temporary. So far as comparisons go, the world's money conditions are still bad. It is all very well to dismiss, with a wave of the hand, the unfavorable weekly statements of the Bank of England and the Bank of France and say that they were affected by the April settlements. They will be affected by other settlements as well. And it is a little amusing to pick up the daily papers and find on the financial page a statement that time money can no longer be loaned at 5%, while in the advertising columns of the same page we find advertisements of gilt-edged collateral returning 6 to 7%. I do not find any good evidence that our railroad companies which were making a bad mouth a few weeks ago because they could not raise money at reasonable rates, have been able to improve their position very much.

There is also a great cry about the improvement in bond prices. It may be well to consider the fact that bond prices have steadily and materially declined for a long time, and that much money which will not be hazarded in stocks is now going into bonds on the very sound principle of a temporary reversal of the position of the two classes of securities. The prophets who inform us that an advance in bond prices always mark the beginning of a general improvement are basing their statements on musty statistics which cannot be intelligently employed under present conditions.

Railroad Earnings.

The Interstate Commerce Commission in its recent report of railroad earnings for the fiscal year ending June 30th, 1906, shows that while gross earnings increased 46% in five years the net earnings have increased only 41% in the five year period. But this is not the most important part of the matter. When the increase in mileage is considered we find that the net per mile has increased only 25% and that dividends have been increased 46%. That is to say dividend distributions have gone ahead of the increase in surplus earnings. The figures are given below:

Interstate Commerce Report of 220,028 Miles of Road

	1906.	1901.
Miles of road	220,028	195,562
Gross earnings	$2,319,760,030	$1,588,526,037
Gross per mile	10,543	8,123
Operating expenses	1,532,163,153	1,030,397,270
Expenses per mile	6,963	5,269
Net earnings	787,596,877	558,128,767
Net per mile	3,580	2,854

	1906.	1901.
Operating ratio...........	66.05	64.86
Total income..............	920,221,859	737,875,216
Interest, rent and tax.....	590,386,554	496,363,898
Surplus on charges........	329,835,305	241,511,318
Dividends	229,406,598	156,746,536
Final surplus..............	100,428,707	84,764,782

The Metals Markets

Everything indicates a falling off in metal prices. On one hand we find the stock jobbers earnestly advocating a great and growing business and on the other hand the most conservative organs of the trade are refuting their statements. In Copper, particularly, we find a general declining tendency which cannot possibly be explained by mere manipulation.

The Technical Situation

There has been a world of bad buying in stocks recently. There has also been a good deal of genuine investment buying. In this latter regard I wish to say that I cannot find any history to show that a great movement was ever stopped by the small investor. It is the big investor who makes and breaks prices, and the big investor has been selling, not buying, recently. The small investor bought the steel stocks cheerfully in 1901 and 1902.

The General Situation

So far I can find only one cheerful fact in the general situation. Prices have declined materially. So far as the railroad stocks are concerned I think the next decline may show some bargains. The metal stocks, however, must go much lower. That the general market will decline again is certain. All our bull news; all our present good feeling will be dissipated in a day or two. The optimistic feeling is artificial and cannot endure. Concretely, I advise sales of Amalgamated Copper, Steel Common and American Smelters. The rails will also suffer a reversal, but sales in this quarter do not, in my opinion, offer the maximum of opportunity.

WEEKLY LETTER

April 13, 1907.

It has been my contention during the recent decline in stocks that the great falling off in prices was occasioned by certain underlying factors of great potency and importance. In forming the deductions which led me to forecast a severe and extended decline I looked first at the money situation, not of

the United States, but of the world; second, at the probabilities of a general slowing up in business of all kinds; and third, at the possibility of a falling off in net earnings of corporations which could not be easily reconciled with the gross figures. So far as such factors as the Harriman-Roosevelt controversy, the investigations of the Interstate Commerce Commission or the general agitation aimed at railroads are concerned, it is my opinion that, while they have had some effect and may even have precipitated the decline, they were only of minor importance. That is to say, the decline would have occurred sooner or later as a result of the factors first mentioned if the second set of influences had never appeared. The ordinary speculator, however, with that pertinacity in error for which he is distinguished, has insisted and even now insists, in attributing market movements to influences which could not, by their own power, change the level of prices two points in one direction or the other.

At the risk of appearing pedagogic, I will again earnestly recommend to my friends that they reform this habit of forming opinions on surface appearances and get down to fundamental facts. The same great influences which have moved the market up and down for years are still at work and the future may be intelligently forecasted by brushing away the mistaken and inspired gossip and considering elements of real importance. Any attempt to follow the mass of interested and prejudiced talk of the Street must result in perplexity and confusion of ideas. And the worst part of it is, this talk too often emanates from high sources for ulterior motives. It is the merchant praising goods he wants to sell. In order to lend force to this statement I will produce next week a parallel showing what certain big men had to say about United States Steel and Amalgamated Copper just before the disastrous declines in these two stocks a few years ago. I think the comparison with the utterances of the present day will be instructive, not to say educational.

The Money Situation.

It is my opinion that the recent easing up of the time money market is largely confined to New York City. Furthermore, I fear that even in New York the improvement is only temporary. Money in Europe and in the interior of the United States is loaning at higher rates, and money, like water, will seek its own level. I may say, in parentheses, that too much importance should not be attached to the recent reduction in the Bank of England's rate. The Bank of England's rate a year ago was 3½%. It was advanced to 4% immediately after the San Francisco earthquake and again reduced to 3½% about July first, 1906. It is pretty hard to figure that we are better off at 4½% today than we were at 3½% eight months ago.

In order to buttress my views of the money situation in the interior of the United States, I recently addressed a circular letter to a number of Western bankers asking about the demand and loaning rates in their particular vicinity. The replies were all of about the same character. I will give a sample:

> "Enclosed I hand you a bunch of circulars recently received which will indicate to you the scramble for loan accommodations that is now being made by the largest commercial corporations and firms in the United States.
>
> "Formerly these institutions obtained their needs in Boston, New York, Philadelphia, Baltimore, Chicago, St. Louis and other large financial centers, but it would appear that under present conditions nearly all the money in these large financial centers is being used for other purposes."

This letter is from a banker in a large Western city, with whom I have the honor of a personal acquaintance, a man of long experience, and not a pessimist. The letter was accompanied by a sheaf of inquiries for 6% money from some of the best institutions in New York.

And how about these railroad notes? If railroads have to pay from 7% to 10% for accommodations on their short-time gold notes while money is supposed to go begging at 5½%, there is something the matter—either something is wrong with the railroads or something is wrong with the money market—take your choice.

Railroad Earnings

Railroad earnings will continue to show a decrease in net for some time to come. When net earnings can decrease in the face of large increases in gross, there is danger of future trouble. This is what has been occuring recently. However, I wish to add that the cutting down of extensions and expenditures by the railroad companies is not a good bear weapon. There are two sides to this feature. On one hand it is an evidence of conservatism and good business policy. On the other hand it is an acknowledgment from high quarters that business may be expected to fall off soon. To criticise the railroad corporations for contracting their expenses just now is tantamount to criticising the captain of a vessel for reefing his sails when he sees a storm approaching.

The General Situation.

All the foregoing talk may appear bearish, but there is a very large qualification. A great deal has already been discounted in present prices. I refer particularly to the rails. The industrials are still out of line. The metal stocks are too high. Amalgamated Copper, Smelters Common and Steel Common should be sold. Amalgamated is being held up by purely fic-

titious prices for Copper (the metal) and Smelters has been hippodromed extensively of late for the purpose of selling the stock. The industrials have been in a better position than the rails in the last few years. This is due to the fact that while the cost of labor and materials has been increasing the railroads could not advance their freight or passenger rates. The industrial companies, however, saw the prices of their selling commodities advance with the cost of production, and in most cases the selling price advanced even faster than the cost of production. It is my opinion that we are now on the eve of a temporary reversal of these conditions. I think the selling price of commodities will suffer a set-back and I do not believe it will be possible for the sellers of commodities to cut down their chief item of expense—i. e., labor.

The Technical Situation

It is the general opinion in the Street that there is an extensive short interest. I do not think so. I think the thoughtless and slim-waisted bears have already been sent home. So far as the others are concerned I cannot see why their opinions and their position in the market should not be treated with respect. And again, there has been a lot of foolish buying in the last week, buying by people who see nothing except that a market has declined. The question is whether it will decline still further.

The following table shows the comparative average of prices of the rails and industrials for 1903, 1906 and 1907. These figures are based upon the prices of the 23 rails and 18 industrials used in my own figures:

Twenty-three Railroads.

April 10, 1907.	April 10, 1906.	April 10, 1903.
84.95	99.64	78.07

Eighteen Industrials.

April 10, 1907.	April 10, 1906.	April 10, 1903.
87.53	95.55	64.67

The above figures show that industrials have advanced more than rails and declined less. If the arguments already adduced are correct the industrials are out of line.

Conclusion

I believe the very best method of trading at present is to sell the industrials on rallies. I think the rails will also go lower, but it is better to make sales in quarters which will offer a maximum of profit.

Amagamated Copper is a good sale, Steel Common is a good sale, and Smelters is a very good sale. Examine the figures. Smelters is selling at the date of this writing at almost the same price as railroad stocks paying equivalent dividends. This is all wrong. Either the rails are too low or Smelters is too high. In my opinion the most intelligent view of the case is that Smelters is too high.

A new factor is now about to appear in the speculative situation. The crops must be considered. It is not yet possible to pass an opinion on this subject, but arrangements have been made in this office to keep my clients posted.

WEEKLY LETTER

April 20, 1907.

The week in the stock market has developed a natural dullness of tone. It is a matter of history that a period of dullness invariably succeeds such market action as has occurred in the last three months. It is not a fact, however, that such inactivity means higher prices. Almost all periods of price readjustment witness their resting places and the generally accepted theory that the present stage of the market heralds better things is not well grounded. It would be exceedingly difficult to bring about any considerable advance in the general list at present. There will be rallies, of course, but they will be caused principally by short covering and purely professional operations, and it is highly probable that on such rallies more liquidation will occur. There are still many stocks in the market which were taken over at low prices to stop the recent decline and tide over individuals who were in a bad way. The present holders of these shares will not offer their holdings rashly, but they are, to a great extent, in the position of having purchased something they did not want and which they will dispose of as rapidly and to as good advantage as possible.

The general expressions of the speculative element are cheerful. There is a great unanimity of opinion that the worst is over, which may or may not be the case. Probably the most suspicious factor of the whole situation is the flood of reassuring talk, even bullish talk, from high sources. So far as my memory and statistics serve me, these benign advisors of the public seldom rush into print in a body except for the purpose of serving their own ends, or as a matter of self-protection. In the bull market, which started with the buying of Union Pacific around 70 in June and July of 1903, we heard very little hopeful talk from these gentlemen, and the same thing may be said of the entire period covering the great advance in stocks which followed.

The principal contention made at present is that Steel and Iron are holding well. Copper is also held firmly at practically the best prices made in many years.

Of this latter metal, its present prices and the probable course of the stocks based thereon, I wish to speak at some length. As concerns the general run of the Copper stocks which have been sold to the public recently as good things, it may be conservatively assumed that 50% are trash and that 25% more are dependent wholly upon the present high prices of the metal for their earning capacity, or even for their bare existence. The rest of them may at some future date become excellent propositions.

As a single example of what can and has occurred to Copper and its stocks in the past, it will be best to revert to the affairs of the Amalgamated Company a few years ago and see how easily appearances of the present day may be deceptive.

To begin with, the present price of the metal, which is now firmly held by the United Metals Selling Company at about 25 cents. In 1901 the price of Copper, the metal, was 17 cents, at that time considered a standard price. In the first eleven months of that year the price did not once sink below 16¾. Meanwhile, Amalgamated Copper, the stock, reached the high point of $130 in June, 1901, and was paying 8% in dividends. Then it began to decline. Its range from June, 1901, by months was as follows:

Price of Amalgamated.

	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
High	130	124¼	122¾	120	92⅛	89	76⅜
Low	118½	109	110	88⅜	83¼	73½	60½

Price of Metal Same Period.

High	17	17	16¾	16¾	16 13/16	16 13/16	17
Low	17	16¾	16¾	16¾	16¾	16 13/16	13

In January, 1902, the price of the metal fell to 11 cents, practically its lowest point.

It will be observed from the foregoing figures that the stock steadily discounted a coming decline in the metal and when the decline materialized both the stock and the metal sunk sharply together. In fact, so far as the stock was concerned, it kept ahead of the metal at all times, rallying from 60½ to 78 in January, 1902, while the metal was still declining. Later, in 1903, Amalgamated sold at 33⅝, but as this was in a period of general depression, the decline will not be here discussed. What we are examining is the movement during a normal period.

We hear the statement made frequently that Amalgamated could pay its dividends with Copper at 15 cents. Of course, this is too ridiculous for comment. In effect, this is a statement

that they are earning at present prices 10 cents a pound net above the necessities of dividends and surplus. If there were any truth in such an extravagant statement the very fact that it was true would knock the price of Copper to pieces. However, it is not true. Many things enter into the consideration of the effect of a sharp decline in Copper metal, but as an example of what has occurred in the past I give below the earnings of Amalgamated Copper Company obtained from the County Clerk at Butte, Mont., of net earnings made by constituent companies of the Amalgamated Copper Company for the year ending June 6, 1902.

	1902.	1901.
Anaconda	$1,289,610	$5,069,071
Boston & Montana	1,630,695	7,042,303
Butte & Boston	166,136	586,053
Parrott	577,617	510,196
Colorado Mining	152,495	303,619
Total	$3,816,553	$13,511,242

It would appear from this that the earnings of Amalgamated or any other Copper company are decidedly flexible. It may be added that the earnings of Amalgamated for the year ending June 1st, 1906, were $13,805,809, about the same as 1901, with the price of the metal higher during most of the 1906 period.

It is my opinion that the price of Copper metal is being fictitiously sustained and that it must soon decline. It would be idle to say that everything points to the increased uses of the metal sustaining the prices. All these theories were exploited and exploded in 1901. It would have been impossible to put the price of the stock to $130 if any buyer could have foreseen the slump in the metal. We heard all this same talk then.

It was my intention to reproduce in this letter a parallel showing the nature of public utterances and predictions as compared with those of today, but the matter is important enough in an educational way to warrant a special letter on the subject. This will be published on Thursday, April 25.

The Money Situation.

There has been little change in the money situation from last week. The time money market holds firm and there is very little hope of any material relief in this quarter at present. Funds are in demand all over the country and any shading off of rates in New York brings about a pretty quick readjustment. Call money is easy, but that feature should be given little attention.

The Crop Situation.

A host of crop experts are beginning to extend their views, and out of this mass of talk it will henceforward be necessary to extract as much truth as is possible. So far, the expressions of such men as Snow, Jones and others worthy of consideration have reflected some damage. It is all right to laugh and sneer at the "green-bugs," but it may be wiser to find out just how much of a bug he is and how far his ravages may extend. It must be remembered that the boll weevil was much laughed at in Texas at one time, but later developments showed that he was a dangerous customer.

The Technical Situation

The technical situation is rather in favor of the bulls at present. There is a rather weak speculative interest short of stocks, and on the other hand, present holders are not easily dislodged. In this regard it may be said that there can be no question but that many small lots of stocks have been picked up and put in tin boxes. There is a popular idea that such purchases as these are investments, not speculation, but this view is scarcely correct. If the purchases are made in a hope of an advance in the principal the transaction is speculative. It may also be well to call attention to the fact that these purchasers are being cheerfully supplied with stocks. There is no reason to believe that because stocks are in tin boxes, they cannot be dislodged. The people who bought United States Steel at 35 or 40 on the theory that its 4% dividend showed 10% on money were afterwards shaken out at around $10 a share.

The General Situation.

As to the general situation, I would say that there is little to attract the buyer of stocks just now. The best he can expect is a period of dullness, and there is still a possibility of more trouble. I think the most advisable plan is to act as a spectator for a time or sell short in the metals stocks. It will possibly not be long before I can extend more cheering views, but for the present the situation contains little promise and some elements of danger.

WEEKLY LETTER

April 27, 1907.

The changes in general prices for the past week have been insignificant. There have been no developments of importance, and prices have drifted sluggishly. This makes the task of framing a market letter rather difficult. It is hard to write about nothing.

It may be well to take advantage of this lull to outline definitely my position on railroad stocks. I have confined my recommendations recently to industrial issues for the very good reason that they are out of line, and are subject to specific influences which may, or may not, affect the rails.

There are at present two cross currents in the railroad stock market. The first and most powerful is formed by fundamental conditions, which are still decidedly bearish. Our money situation is not good, and any attempt to create a bull stock market at present would make these conditions still worse. An important political battle is impending; the crops are at a critical point, and many great speculators have recently been crippled. Those and other factors which have been discussed from time to time in these advices would appear to prohibit anything remotely resembling a bull stock market, but there is another side ot the question, and it should be carefully considered.

The very fact that money is locked up from the railroads and that new railroad securities are viewed askance by lenders the world over might lead to an attempt at extreme manipulation for the purpose of influencing sentiment, and incidentally creating a market for stocks which are still for sale. Such a movement could not and would not go very far but it is almost a certainly that a five or ten point advance in a few securities would cause the public to believe implicitly that a great bull market had started. In this they would be wrong, as usual. I cannot recall a single instance in twenty years where the public recognized a genuine bull movement until it was about over. but I can recall dozens of instances where a false start has deceived them.

It is my opinion that it is better not to do much in railroad shares until something more definite is developed. More particularly I wish to warn my friends not to become bullish in the event of a sharp manipulated advance. Such an advance would most certainly be accompanied by a flood of bull talk and opinions and sentiment would be universally reversed.

Nothing in the above is to be construed as a prediction on my part that an attempt will be made to advance stocks. I don't believe it at all probable, but it is possible. Developments might occur at any moment which would occasion me to take at once a decided stand either way, but at present a waiting policy in the rails is best.

I understand that most people would prefer a more decided opinion. In reply to this I will say that conditions are such that the man who attempts to be too decided is in danger. I do not think anyone can accuse me of being undecided in my expressions when circumstances warranted emphatic views. Every intelligent man will recognize the fact that there are periods when a market is in a very perplexing condition. Fortunately these periods only appear once or twice in a year and

they do not endure long. When they do appear the man who pretends to forecast immediate changes is guessing. Careful study and examination is at such times of no avail. In fact it is this study and examination which uncovers and reveals the conflicting influences.

As a choice between buying or selling rails in the present market I would say unhesitatingly to sell on all advances but be prepared to exercise patience and disregard talk which is inspired or mistaken. There will be no bull market, but there might be a fair imitation of one.

I trust I will be able to take a decided stand in my next week's letter. Meanwhile it is better to point out a possible danger, even if it never materializes, than to indulge in any rash guessing.

I may add to this the fact that I am personallv satisfied that the wheat crop has suffered considerable injury and that if this view proves correct, it will be of extreme importance in shaping prices in certain quarters.

So much for the rails. In the industrials we have a different proposition. This class of stocks has been bulled steadily for two years and the recent declines have not fully discounted a falling off in general business. It is easy and natural to figure present prices from the soda-water high points established last year, but it is infinitely wiser to stretch our memories a little further and see how far we have advanced since our last period of depression (1903). In 1903 Amalgamated Copper sold at 33⅝; American Smelting at 36¾; American Locomotive at 10½; United States Steel Common at 10 and so on down the line. It must be admitted that the low prices given above represent undue depression just as the high point of 1906 represented undue inflation, but we know by statistics that in the great cycles of price changes one extreme always follows the other. The contention is constantly heard that conditions are different now, but it is hard to find wherein this is true.

In the case of Amalgamated Copper, for erample, I find that a majority of the speculative element feel sure the combined copper interests can sustain the price of the metal around 25 cents. In last week's letter I endeavored to demonstrate the fact that a mere maintenance of the price of the metal is not a good bull argument on the stocks. The price of the metal was held firmly at 17 cents until December of 1901, and meanwhile the stock of the Amalgamated Company declined from 130 to 60½. Then the price of the metal dropped horizontally to 11 cents. So far as increased uses of the metal is concerned a brief examination of the files of newspapers in 1901 will show that we had even more of this talk and less division of opinion on the subject than we have at the present day. In fact, manufacturers and telephone and telegraph companies were not doing much grumbling about 17 cent Copper. There are evi-

dences now that a good many big consumers will not or cannot extend their business with Copper at 25 cents. The Western Electric Company, a concern doing a business of $70,000,000 per annum, has recently laid off 5,000 of its 25,000 men.

The world's production of Copper has more than doubled in ten years. Also the price has more than doubled in the same period. There is something artificial here. "No tree ever grows to heaven."

But the most significant fact of all is the howl that goes up from the "trust" when anybody talks about selling at lower prices. In spite of statistics that show an abnormal rise in prices of late years and in spite of other statistics that show the metal to be subject to severe ups and downs, we find producers and the press almost a unit in voicing the idea that Copper is all right at present prices. Again we have the rather paradoxical and suspicious fact thrust upon us by certain large consumers that **they** think Copper is cheap at 25 cents. And meanwhile, in spite of thimble-rigging both here and in London, Copper shares do not advance.

In 1901 I wrote for the **Colorado Springs Gazette** a series of articles bringing out most of the arguments set forth above. In these articles I said emphatically that Copper, the metal, must decline and that Amalgamated, then selling around 120, would go below 75. These expressions were about as well received as are the present arguments. Yet conditions were practically parallel.

We hear and read frequently of late that the opening of numerous new mines will not greatly increase the world's supply of Copper. The Solons say that as fast as one new mine is exploited an old one will peter out. This kind of talk grows from ignorance of Copper mining. Copper mines in granite, such as those in the Butte district, are practically inexhaustible. The Rio Tinto mines in Spain have been worked since the eleventh century before Christ, and are as good today as they ever were.

I do not want to appear prejudiced against any certain stock or industry, but a very careful canvass and study of the Copper situation leads me to recommend sales of Amalgamated in preference to any other shares on the list. I think advances in this stock will be brief and limited, and that a scale order on every rally will result in handsome profits. It is impossible to go as deeply into the subject in a brief letter as I would like to do, but I will endeavor in my daily letters to present conditions as they develop from day to day.

The Technical Situation

There can be no question but that the technical situation is much weaker than it was last week. In spite of a general

opinion to the contrary, the public are bullish on stocks and are picking them up on breaks. The short interest has also been largely eliminated. There are stocks for sale from insiders on all advances, nad this is particularly true of the industrial shares. Steel Common comes out freely on every hard spot, and while the stock is not pressed for sale there is unquestionably a plentiful supply in the market.

The Money Situation.

In spite of the fact that money has become easier in certain quarters, this appearance is somewhat superficial. Outside bankers with whom I correspond, say they can loan all they want to on good collateral at 6% and apparently they are not anxious to extend loans at present. These bankers also confirm my opinion that there is a considerable amount of public buying of listed stocks and a consequent withdrawal of funds.

It is my opinion that stocks will not advance materially from the present level except as suggested in the first part of this letter. The best policy therefore is to limit operations to sales of such stocks as Amalgamated Copper, American Smelters and United States Steel Common on all rallies until something definite is developed marketwise.

SPECIAL LETTER

May 2, 1907.

The Value of Gossip

It is certain that a great number of speculators and investors are more or less moved in their operations by the market gossip they read and the market opinions they hear. It is my contention that almost all this talk is valueless. I will go even further and say that in most cases it is misleading and dangerous. In order to bring out this fact more forcibly I have recently searched the files of leading daily papers in order to gather the concensus of opinion at certain market periods. I found my views to be even better grounded than I had expected. The expressions of opinion, editorial and otherwise, were generally cheerful at or near high prices and pessimistic around the bottom. I will reproduce some of the opinions below, with brief comments as to what followed. As space is limited and I am at present recommending sales of United States Steel and Amalgamated Copper I will confine myself to articles bearing on these two stocks. In quoting from the **New York Times** I do not intend to show any prejudice against that paper. Its expressions do not differ materially from those of other journals and I simply quote it as a representative organ.

From the **New York Times** November 8th, 1901:

> "For the first time in many days there was an active demand at advancing prices for the stocks of the United States Steel Corporation, more than 49,000 shares of the Common and 44,000 shares of the Preferred being dealt in. Buying came from houses prominent in the organization of the Corporation and was said to be predicated on the phenomenal business of the Company."

Steel Common ranged between 41¼ and 44½ in November, 1901, and did not sell more than two points higher before beginning its downward career to $8 per share. The **Times** of November 2, 1901, also contained a lengthy article by Frederick E. Saward on "Iron and Steel Prospects" in which the still widening markets; the purchase of a water-front by the United States Steel Corporation at New Orleans, in anticipation of increased business, etc., etc., were set forth.

November 8th, 1902:

> "It can be stated on the highest authority that a conference of four of the largest market interests in Wall Street was held in an uptown hotel Thursday night. At this meeting plans were prepared for an active campaign in the market on the advancing side, to be based upon the excellent industrial and commercial conditions and on the knowledge and belief that helpful currency reform is likely to result through legislation at the coming sessions of Congress."

This was in a Saturday morning paper. During the short session of that same Saturday stocks broke from 3 to 19 points all along the line and went still lower in the following week and month.

November 30, 1902:

> "Despite all the bearish talk on the Copper trade situation Amalgamated has been decidedly strong under good buying which in the Street is said to come directly from Amalgamated interests."

This cheerful news was followed by a decline of about ten points.

As we are chiefly concerned with expressions preceding a continued and material decline, I will devote the rest of my space to the early part of 1903.

January 3rd, 1903, we find an article headed "Increased Imports of Iron and Steel" in which it is set forth that these imports illustrate the unexampled demand for those products in this country.

In the issue of January 8th we find a statement of the net earnings of the U. S. Steel Corporation in 1902 showing that after meeting all fixed charges and paying 4% on the Common they had set aside a surplus of $33,841,565.

On January 8th, 1903, is an article stating that "prosperity in the iron trade in the Birmingham district is unparalleled."

January 11, 1903:

> "Here is a single corporation that puts out over $56,000,000 in dividends and still has nearly $34,000,000 left in undivided profits applicable to depreciation and reserve."

This is all very well but United States Steel Common never sold one point higher than the price touched in January, 1903. It sold in December of that year at $10.00 per share.

On February 1st, 1903, appeared a gigantic advertisement ostensibly fathered by a financial newspaper of New York, headed "How the United States Steel Corporation's returns compare with the dividends of all the railroads of the United States."

March 11th, 1903:

> "A published report in the Street yesterday was to the effect that earnings of United States Steel during the current year will show more than 10% on the common stock over and above extraordinary allowances for depreciation and improvement."

United States Steel Common ranged between 37⅞ and 36½ in March, 1903. It never touched the high price of that month again until it reached $8.00 and the dividends were cut.

March 3, 1903:

> "The strongest and most active stock on the list was Amalgamated Copper. The price of the metal was advanced both here and in London."

Amalgamated did not exceed the high price of March, 1903, (75⅝) and reached 35¾ in July, 1903.

June 28, 1903:

> "Despite bearish literature being put out by certain stock manipulators Amalgamated Copper made a further advance yesterday on buying whose character was said to be of the best. The street finds it hard to reconcile the advance in the stock with bearish utterances of certain interests. . . . There are some people who believe that the present plan of campaign signifies that favorable developments are at hand."

Amalgamated broke 23 points in the next 30 days. I may modestly add that I was one of the "interests" issuing bearish literature on Amalgamated during the period named, although my circle of readers was neither large nor enthusiastic.

It would be possible to go on piling up examples of the value of such opinions as have been quoted, indefinitely, but those given above will suffice. Particular attention is called to the marked similarity between this talk and that which is so prevalent today. The newspapers are not to blame, they merely reflect current opinion, but it must be admitted that this sort of thing has its effect. It seems to be impossible for most people to understand that we are not speculating on the present, but on the future, and on the remote and submerged future. What we can see ahead of us is useless, unless we can see what is not apparent to the naked eye.

In gathering the excerpts given above I have endeavored to be entirely fair. They are not picked out to support my views, but are a plain exhibition of the concensus of opinion at the periods named.

A little thought will show that a cheerful feeling must **necessarily** exist at the time when stocks are being unloaded on the public, otherwise the public would not buy. It is also necessary at times to manipulate prices sharply upward for the purpose of making a moving picture on the blackboard and galvanizing the apathetic audience into life. This is done time and again and the method invariably meets with some measure of success. Also this washing of trades creates a new selling basis. It is usually necessary to put a stock to par in order to dispose of any considerable quantity at an average of 90.

The opinions of the Street are usually worthless. The only way to arrive at any dependable basis of operations is to dig into unseen fundamentals and probabilities. There are reasons at present for believing that in spite of our present cheerful industrial and commercial talk we may soon expect a decline in industrial shares. These reasons will be set forth at length in my weekly letter of May 4th.

WEEKLY LETTER

May 4, 1907.

It appears from numerous letters received at this office that many people consider my recent position on rails and industrials unreasonable. I have stated that while I would not advise selling railroad stocks, I considered industrials an excellent sale on every rally. There is apparently a popular belief that the general market always moves together in a considerable swing, and that any advance in one set of stocks would be accompanied by a corresponding advance in others. So far as the general tone of a day's market is concerned this is true, but nevertheless individual stocks or groups of stocks can easily and gradually change their selling basis in a brief period of time. In 1901, for example, the industrial stocks reached their high levels and

suffered a considerable decline in 1902. Meanwhile the rails were advancing. To illustrate and confirm this statement the highest prices of both rails and industrials in July, 1901, and July, 1902, are set forth in the following tables. There can be no unfairness in choosing this particular period. What I want to demonstrate is that it is possible for the two groups to cross each other in price in a given time. The ten most active stocks have been chosen in each group as fairly representative of the entire market:

RAILROAD STOCKS

Stock.	High in July, 1901.	High in July, 1902.
Atchison	89⅜	95¾
B. & O.	108¾	112⅛
Con. Pac.	108¼	139¾
St. Paul	177¼	189⅜
Erie	43⅝	39½
L. & N.	111	145⅞
Mo. Pac.	121⅞	119½
Penna.	151¾	161¾
Reading	47	69⅞
Union Pac.	110⅞	110⅝
Average price	102.97	118.41

INDUSTRIAL STOCKS

Stock.	High in July, 1901.	High in July, 1902.
Amalgamated	124¼	68¾
American Smelting	58	47½
American Sugar	145⅝	134½
Anaconda	48⅞	27
Colo. Fuel & Iron	116⅛	102¼
National Lead	23	22¼
Tenn. Coal & Iron	72½	69½
Rubber	21¼	17
U. S. Steel	48⅞	41
U. S. Steel, Pfd	99½	92⅛
Average price	75.80	62.18

These tables show that during the fiscal year used railroad stocks advanced an average of over 15 points, while industrials declined almost 14 points. In other words the spread was 29 points. The man who bought rails and sold industrials would have made on the average 29 points. This exhibit entirely overthrows any argument that the market moves one way or the other homogeneously.

There was a reason for the spread illustrated above. There always is a reason. We had big crops in 1902, which helped the railroads. The industrials, on the other hand, were busily discounting the business depression of 1903. My recent advice to sell industrials on rallies and let railroads alone was instigated by a belief, which in my own case amounts to a certainty, that the price of commodities must decline. Such a decline would not be a wholly unmixed evil for the railroads. They have already abandoned many projected extensions and improvements because of the high prices of labor and material. These contractions are variously attributed to political disturbances, adverse legislation, etc. In truth, they were brought about by the factors of high prices and tight money.

Nothing in the foregoing figures or statements is intended as a parallel between 1901-2 and the present time. There is considerable difference. The industrial stocks are in about the same position, but the railroads are not so well off. They need money and they cannot borrow it except at high rates of interest. There is not a free money market in the world today. And above all is the question of Crops. It looks now as if Winter Wheat had been injured at least 25% and Spring Wheat is certainly backward.

Precedent shows that in a period of general depression industrial stocks suffer about 33% more than rails. That is to say in the high and low prices covering a long period industrial securities should show a distinctly greater pro rata of decline. Let me illustrate, using the stocks employed in the former table and covering the period of our last great cycle, 1901-02-03. As most of the high prices in rails were made in 1902, I will use the highest of both 1901 and 1902, and the lowest of 1903:

RAILROAD STOCKS

Stock.	High in 1901-1902.	Low in 1903.
Atchison	96⅝	54
B. & O.	118½	71⅝
Can. Pac.	145¼	115⅝
St. Paul	198¾	133¼
Erie	45½	23
L. & N.	159½	95
Mo. Pac.	125½	85¾
Penna.	170	110¾
Reading	78½	37½
Union Pac.	133	65¾
Average price	127.11	79.22

INDUSTRIAL STOCKS

Stock.	High in 1901-1902.	Low in 1903.
Amalgamated	130	33⅝
American Smelter	69	36¾
American Sugar	153	107⅛
Anaconda	54¼	25½
Colo. F. & I.	136½	24
National Lead	32	10½
Tenn. Coal & Iron	76⅝	2578
U. S. Rubber	34	7
U. S. Steel	55	10
U. S. Steel, Pfd.	101⅞	49¾
Average price	84.22	33.01

It will be observed from the above table that industrials declined about 51 points, while rails declined about 48 points. But the decline cannot be figured in points. The higher range of railroad shares must be considered. A decline of two points in a stock selling at 100 is only equivalent to a decline of one point in a stock selling at 50. Therefore, in order to get a correct view of the matter we must reduce the decline to percentages. On this basis railroad stock lost about 38% of their value and industrial stocks lost about 60% of their value.

Let us see how this compares with the high prices of 1906 and the present market.

RAILROAD STOCKS

Stock.	High in 1906.	Closing price May 1, 1907.
Atchison	110½	94¾
B. & O.	125⅛	99¼
Can. Pac.	201½	176¾
St. Paul	199⅝	136¼
Erie	50⅞	24⅜
L. & N.	150½	119¾
Mo. Pac.	106¾	76
Penna.	147½	127
Reading	164	111⅜
Union Pacific	195⅜	146½
Average price	145.77	112.20

INDUSTRIAL STOCKS

Stock.	High in 1906.	Closing price May 1, 1907.
Amalgamated	118¼	95⅛
American Smelter	174	134⅝
American Sugar	157	125
Anaconda	75	63¼
Colo. F. & I.	83¼	35½
National Lead	95⅜	62½
Tenn. Coal & Iron	166	147½
U. S. Rubber	59½	42¾
U. S. Steel	50¼	37¼
U. S. Steel, Pfd.	113¼	101⅜
Average price	109.18	84.48

This shows that while rails have declined about 33 points, industrials have declined only about 25 points. Again reducing the matter to percentages we find that both rails and industrials have lost approximately 23% of their value.

This does not dovetail. True, conditions may tend to change these proportions, but not materially. Crop failures would injure not only rails but industrials, for crops are the backbone of commerce. When the purchasing power of the people is impaired commodities must fall in price.

It is my contention that aside from what is shown by precedent, we are now facing a situation which will lower the prices of industrial stocks materially. We hear a great deal about the excellent iron and steel markets and the large orders booked ahead. We have heard all this before. Even after the real trouble begins, business in the metals will continue good for a time. Orders are booked before the coming depression is apparent, and projected extensions are carried on voluntarily or through necessity even after the setback arrives. The price of the common stock of the United States Steel Company does not advance and although the Company is said to be earning anywhere from 15 to 30% on the junior issue, they do not increase their meagre dividend of 2% per annum. Why?—because they know full well there is to be a recession.

Also we hear a great deal about copper (the metal) and prices are maintained or bid violently upward. Amalgamated goes up a point or two under extreme manipulation and the directors refuse to untie the string they have on their "and one half extra" dividend. Why?—same reason.

The Technical Situation

The technical situation has not been improved by this week's market action. The short interest is not large, and a dangerous

public long interest has been created. I have also noted much "washing" of trades, in Amalgamated, particularly. This looks like an attempt to create a selling basis.

The General Situation

Considering the bad crop news, the bad conditions in fruits and vegetables, of which more anon; the extreme manipulation in the present market, the fact that money is fully employed in other lines than speculation and that the stocks are hanging over the market awaiting a favorable opportunity for liquidation, I can see nothing ahead to encourage purchases. I am also inclined to cancel my recent restrictions in regard to railroad stocks, and recommend sales of both industrials and rails for the present, but preferably the former. I cannot pretend, in the limits of a single letter, to give all my reasons for this view, and must content myself by stating that I am led to this belief not only by my own investigations and deductions, but by the opinions of men in whose intelligence and sober judgment I place more confidence than in the expressed opinions of all the traders and tipsters from one end of Wall Street to the other. I do not mean to say that stocks will not advance a point or two more, but it is my firm opinion that sales in any quarter at this level which are reasonably protected will result in large profits in the near future.

WEEKLY LETTER

May 11, 1907.

After a period of inflation in stocks and the consequent pricking of the bubble, there is invariably a considerable period devoted to a general readjustment of values. The first great decline is comprehensive, and good and bad stocks suffer alike. The selling at this period is in the nature of a surprise, a complete revulsion of sentiment, and the highly speculative element, with no eye to intrinsic values, of which, in fact, they know nothing and never wanted to know anything, sacrifice good and bad stocks in a general whirlpool of frightened or forced liquidation.

This stage is followed by what may be termed a period of readjustment. Investors and the shrewder speculative element begin busily sorting out properties according to their respective merits. A number of very conservative men, who do not feel justified in making purchases, indulge in a process of "straddling," or buying a stock which has suffered unduly while they sell another which is in a weaker position. To illustrate this I may say that in a recent conversation with a gentleman who figures carefully and has a remarkably clear view of the relative values of securities, he informed me that he was buying Pennsylvania and selling New York Central.

It has been my intention for some time to take up certain stocks in this letter, treating them individually, one at a time, beginning with the stock which appeared to possess the greatest merit. I have been deterred from this method somewhat through the knowledge that a certain percentage of my readers would construe any favorable showing in regard to a certain stock as advice to buy that stock at once, but such is not the case. It is wholly a matter of degree. What I wish to convey is information as to which stocks will be the best ones to purchase when the right time comes.

Beginning next Saturday I will present in the order of their importance the properties which are in the best position. No comparisons will be made as yet in industrial shares, as I think all these stocks are in a temporarily bad position.

In order to show how great the difference is in certain stocks I present the following table showing the margin of safety in 12 leading rails; these figures apply to the preferred stocks only, and exhibit the sums applicable to common dividends and surplus which lie between preferred dividends and a decrease or cancellation of same. In studying these compilations it is necessary to use great discrimination as to their bearing on the junior issues. It is also important that interest rates on money should be considered. It would be bad policy to buy a 5% preferred stock, no matter how great its margin of safety, if money could be employed at 6%. And sympathetic influence must not be overlooked. As an extreme example of this latter phase of the subject, let me call attention to the fact that Steel Preferred declined in 1903 to below $50 per share in spite of its steadily maintained 7% dividend and the fact that the divident was cumulative.

Margin of Safety

Stock.	Dividend.	Last Annual Report.	Margin of Safety. Amount.	Margin of Safety. Per Cent.
Atchison	5%	$17,733,209	$14,675,795	12.85
B. & O........	4%	18,064,300	14,690,752	24.48
Can. Pac......	4%	16,012,215	15,800,293	36.99
St. Paul.......	7%	13,323,231	10,815,310	21.78
D. & RG......	5%	2,442,476	84,399	0.18
Erie 1st.......	4%	3,089,670	1,139,260	2.38
M. K. & T....	4%	1,653,057	2,819,577	21.70
N. & W.......	4%	7,208,588	5,875,939	25.55
Reading	4%	7,340,968	5,080,868	18.14
So. Pacific....	7%	18,834,963	23,142,880	57.78
So. Railway...	5%	5,229,056	393,560	0.66
Union Pacific..	4%	31,764,674	29,779,462	29.90

All dividends on stocks in this table are non-cumulative.

Some of these figures appear particularly good, others are particularly bad, and attention may be called to the fact that

these appearances are faithfully reflected in the action of the stocks concerned.

I find from my investigation and daily advices that there is a generally bullish feeling at the present level. The innate desire to buy something after a decline is prevalent and has, in truth, resulted in a considerable accumulation of shares by small investors or speculators. Personally, I do not believe the time is yet ripe for purchases. A cycle of speculation usually carries prices from one extreme to the other, and while I do not believe that prices will sell in any quarter as low as in 1903, I do not think the approximate bottom has yet been reached. In order to illustrate this point, let me present a simple diagram of the ordinary stages of a cycle of speculation. I will take a movement from 20 to 100 and vice versa in a hypothetical stock which may also be considered as applicable to a general movement in the entire list.

Upward Swing

EXTREME HIGHEST	**100**	A long period of backing and filling; public buying and inside liquidation.
	90	Excitement and inflation .75% of general buying done here.
	80	Good buying all around. Public interested.
NORMAL VALUE	**65**	Opinions mixed. Public beginning to **buy** but professionals rather bearish.
	45	Insiders still bidding prices up. Professionals bearish.
	30	Insiders bidding for stocks; public sceptical.
EXTREME LOWEST	**20**	A dull market. Insiders accept all offerings.

Downward Swing

EXTREME HIGHEST	**100**	A long period of backing and filling; public getting tired and insiders selling.
	90	Insiders selling. Much bull talk, dividend increases, etc. Some averaging by people who loaded up at the top.
	80	More bull talk. More averaging. Insiders still selling.
NORMAL VALUE	**65**	Many weak accounts forced out. A temporary halt and probably a big rally.
	45	Insiders pretty well out. The wise speculate element consider this the bottom and load up.
	30	General blueness and pessimism.
EXTREME LOWEST	**20**	A dull market. Insiders accept all offerings.

It is my opinion that we are now a little below the point marked "45." It will be understood that I make this statement in a very broad sense; that the whole idea is greatly magnified, and that it is more general than specific. There are now, as always, a considerable amount of surplus stocks for sale; there are certain securities which could not be liquidated to advantage during the advance—American Smelters, for example. The holders of these laggards will move heaven and earth to create a market for their particular specialties, and at times the general list will be sustained or depressed by the gyrations of a single security. It may be asked, "Is not the middle point or normal value a good place to buy?" The answer is ridiculously simple. It is a good place to buy if the swing is upward—it is a good place to sell if the swing is downward. At present the swing is downward.

The General Situation

A careful investigation shows me that the much talked of recession in business is already beginning to make itself felt. This is particularly true of the metal industries. Castings are now delivered in a few weeks as compared to eight and twelve months a short time ago, orders are now being solicited in quarters where they were turned down incontinently last year. This does not square very well with newspaper reports, but it squares with the truth. There is too much talk about "a healthy slowing up;" the slowing up is forced, not voluntary, and its necessity is confession of disease **a priora.** Also we hear vapid arguments that a set-back in the steel and iron business or a marked curtailment of our wheat and cotton crops will not materially affect general business. These views are not supported by either logic or precedent. As well try to take 2 from 4 and leave 3.

I consider stocks a sale on all rallies for the present. The industrials are in a particularly weak position. I believe that Amalgamated Copper will sell around 75; American Smelters below par; Steel Common around 20, and so following. In expressing this rather radical view, I do not mean to say that the decline will be sudden or immediate or that no rallies will occur. I will further qualify by stating that this opinion is subject to change if good and sufficient reasons warrant a reversal of opinion.

The Technical Situation

The technical situation has undergone little change this week. If anything, it is impaired so far as the exponents of higher prices are concerned. There has been some buying of speculative-investment character, but on the whole the mechanical support which it is customary to look upon as a negative

bull factor is lacking. At a rough estimate I will say that 10% of the surplus stocks are in strong hands; 40% in the pools, and the remaining 50% in public, or weak, hands. This is not very promising.

WEEKLY LETTER

May 18, 1907.

The past week in the Stock Market has been dull and uninteresting. Only one event occurred to break the stagnation, and even that did no more than stir matters up for a brief hour or two. This event (the report of the Interstate Commerce Counsel) reached the Street prematurely, and in a garbled form. It is probable, however, that this report foreshadows more or less accurately the substance of the forthcoming recommendations of the committee itself.

In spite of the present dullness, it is my opinion that we are now nearing a period of considerable activity in stocks. The situation, dull and unattractive as it may appear, is rife with both dangers and possibilities. It must be added that there never was a time when greater care should be given to the basis of commitments and to a careful analysis of underlying general factors as well as to intelligent scrutiny of individual stocks. The recent whirlwind of forced and voluntary liquidation has so disturbed the relative selling prices of stocks that the wheat and the chaff are badly mixed and a careful winnowing will be necessary before commitments can be made with discrimination. The present dullness should be taken advantage of, so long as it lasts, to seek a correct understanding of the relative merits of shares, not necessarily with a view to immediate purchases, but in order to be equipped for action when the psychological moment shall arrive. With this object in view, I shall henceforth embody in these advices an analysis of one or more active securities each week, beginning with those which appear to be the most radically out of line. The opinion has already been most emphatically expressed in a recent letter that the industrial shares are entirely too high, as compared with the rails. Therefore, I will for the present confine myself to comparisons of railroad stocks, dismissing the industrial issues with the general statement that, while they are also badly out of alignment, they are all too high.

No more forcible example of the relative merits of certain leading securities can be offered than the following comparison between New York Central and Pennsylvania. I am indebted for this computation to Mr. Carl Snyder, author of "American Railways as Investments."

New York Central and Pennsylvania Comparisons

The New York Central & Hudson River Railroad divides with the Pennsylvania the distinction of being the most important railroad in the United States, although in point of gross earnings, it comes after both the Pennsylvania and the Southern Pacific. It has the only "water grade" between the seaboard, the Great Lakes and Chicago. Nevertheless, its tonnage, earnings and profits are considerably below those of its chief rival. The following comparisons of the operations for 1906 are of interest:

		New York Central.	Pennsylvania.
Mileage		3,784	3,896
Approx. Net Capitalization		$466,000,000	$577,000,000
Approx. per mile of road operated		123,000	145,000
Net Earnings on Net Capital		5.8%	8.1%
Gross Traffic Earnings		92,089,768	148,239,882
Gross per mile		24,336	37,661
Increase (per mile) over 1905		8%	9%
Increase (per mile) over 1900		33%	70%
Freight Traffic Density (ton miles)		2,226,046	4,742,081
Maintenance per mile	Way	2,832	4,738
	Equipment	3,850	6,725
	Total	6,682	11,463
Average Freight Rate		.64c	.64c
Av. Train Load (tons)		403	529
Train mile earnings		$2.59	$3.14
Fixed charges		64%	38%
Surplus after charges		$12,275,260	$35,674,300
Per cent. of earnings on stock		8.2%	11.6%
Surp. app. for Improvements, 7 years		$16,347,260	$63,652,929
Av. price in 1906		139	137
Dividend rate for year		5¼%	6½%

The per cent. of surplus for the New York Central is reckoned on $149,000,000 of stock on which dividends were paid during the year.

These figures speak for themselves. The position of Pennsylvania is much better than that of New York Central; so much better, in fact, that it is not covered by the present price difference of about 8 points. I do not hesitate to say that the man who sells New York Central and buys Pennsylvania in equal amounts on the principle known as "straddling," will reap a profit, no matter which way the market goes. That is to say, in the event of a decline, New York Central will break faster and farther than Pennsylvania, and in the event of an advance, Pennsylvania will go higher, proportionately, than will New York Central. From a speculative point of view it may also

be said that the technical situation is in favor of just such a spread. There has been a great deal of buying of New York Central recently by a weak element who made purchases on no better basis than that the stock had declined. On the other hand, while there is no vulnerable short interest in Pennsylvania, recent purchases have been of a good, or semi-investment order.

As a general rule I do not recommend "straddling," but until the present dullness is broken and something definite develops, there is a little money to be made by the method. Operations of this class may also be carried on confidently by selling industrials and buying good rails. Figures were submitted in these advices a short time ago, showing that the present comparative prices of the two groups were from 10 to 30 points out of line, as judged by precedent and the speculative influences bearing on the situation.

In order to facilitate the careful study of relative values, I will mail to subscribers on May 23, a table showing the margin of safety in leading railroad and industrial stocks. This table will be supplemented by such comments as may appear necessary.

The Technical Situation

The technical situation at present is badly mixed. This is due to the fact that a great many traders are now at sea as to what may be expected. They are therefore playing favorites, and in almost all cases they are figuring backwards. Thev buy shares which are in a weak position and sell shares that are in a strong position, principally because of the **price.** For example, Steel Common is a general favorite with the bulls in industrials, and Union Pacific attracts the bears in the railroad group. It would be pretty hard to convince the ordinary trader that Southern Railway Common was the very best short sale in the rails, but it is true, nevertheless. "Too low," they say. But why not sell it in larger amounts? It is safer to be short of 1,000 Southern Railway than 100 Pennsylvania. The question is not that of figures at all, it is a question of value.

From the standpoint of technical position alone, my investigations show the following comparisons:

Strong	**Weak**
Brooklyn Rapid Transit.	Amalgamated Copper
Canadian Pacific.	St. Paul.
Missouri Pacific.	Nat'l Lead.
Pennsylvania.	New York Central.
Union Pacific.	Northern Pacific.
American Smelters.	Southern Pacific.
Wabash.	Southern Railway.
Reading.	United States Steel.

This statement must not be taken too literally. I do not mean to infer that stocks which are in a technically strong position are a good purchase or vice versa. The table has a distinct bearing on daily changes, but not on ultimate results. I am very bearish on Smelters, for instance, and yet I find that people who correctly figured out the coming recession in the metals business and its effects on prices, sold Smelters in preference to all other metals stocks, because of its high price, thus creating a large short interest.

I do not believe the time is ripe to make purchases in any quarter as yet. As has been stated above, it is high time to begin looking around, and meanwhile some profits may be realized by straddles or straight sales of industrial issues. There is a widespread opinion that stocks are in strong hands and that the recent declines have resulted in adequate liquidation. This is not true. A great many stocks are still resting with holders who know how to dispose of them much better than did the nervous plungers who provided our March quotations. These wise holders are slowly and gradually getting out without bustle or confusion. When they get away entirely, there will be another sharp decline. Meanwhile, they may find it necessary to whoop things up for a point or two now and then, and it may be set down as certain that the very stocks they settle on to create an impression will be the worst and weakest ones on the board. Desperate diseases require desperate remedies.

Personal

I wish to apologize in advance for injecting a personal word into this letter. Many communications are received at this office, protesting because I do not give certain points at which to make day to day purchases or sales. This is impossible. Such advice is mere guesswork. A number of other correspondents object to my bearish attitude. I object to it myself, but as long as I am satisfied that conditions do not warrant purchases, I do not intend to be forced into a changed attitude. I may add that since these letters were started on February 1st, I have constantly recommended sales of stocks on advances (with one exception, March 14th) and purchases of Wheat, Corn and Cotton on breaks. How correct this advice has been in general results is a matter of history. I make these statements, not in a spirit of "I told you so," but because I prefer to receive subscriptions with distinct understanding that I do not pretend to guess changes of a few points, and that I do not deal in "tips." What we want to get at is how to make money in reasonable amounts on an intelligent basis, instead of chasing will-o'-the-wisps.

SPECIAL LETTER

The Wheat Market

May 23, 1907.

As a general thing I do not recommend speculation in either cereals or staples. In the past I have undertaken to prove at times that a larger percentage of loss arises from such transactions than from operations in the Stock Market. This view I still hold, but modify it somewhat by saying that once in two or three years good opportunities present themselves in the Commodity Markets which, if taken advantage of in an intelligent manner, result in good profits.

Such a period is now at hand. It has been at hand for some time. Part of the opportunity is already lost to those who habitually wait until the eleventh hour before making commitments, but there is still room for profit. In order to gain a fair general idea of the statistical situation the following figures are recommended to your careful consideration.

Wheat Crops of the United States Since 1902

Year	Winter Wheat	Spring Wheat	Total
1902	415,399,000	254,664,000	670,063,000
1903	401,686,000	236,136,000	637,882,000
1904	325,374,000	227,026,000	552,400,000
1905	419,481,459	273,498,030	692,979,489
1906	492,462,326	242,798,644	735,260,970

To make comparisons with these figures we must, of course, base our present crop on prospects and estimates. There is always a crop scare at this period. Sometimes it is purely fictitious, and even in the present case there are many exaggerations. It must be said, however, that these exaggerations are not of a jug-handle character, for while we find many of the crop-killers predicting unreasonable disaster, we also find many of the roll-top desk farmers anticipating bumper crops. Neither class is worthy of consideration. We may arrive at the approximate truth, however, by consulting the Government figures and the reports of such crop experts as have been moderately reliable in their past performances.

The Government figures published May 10th showed the condition of Winter Wheat on May 1st, 1907, to be 82.9, as compared with 89.9 the preceding month, and 91 on May 1st, 1906. The acreage shown by the document was 28,132,000 compared with 31,664,574 sown last fall, showing an abandoned acreage of 3,532,000.

This reduced to a concrete statement indicates a Winter Wheat crop of about 405,000,000 bushels, as compared with 494,000,000 bushels estimated on April 1st, 1907.

It must be borne in mind that this covers conditions up to May 1st only, and that the weather since that date has been decidedly unfavorable.

Of the crop experts, I consider H. V. Jones the most reliable. He is not a crop-killer, and has a good record behind him. In his report of May 20th, he places the maximum crop of Winter Wheat at 325,000,000 bushels, or 170,000,000 less than last year. So far as Spring Wheat goes, Mr. Jones is conservative, contenting himself with the statement that there is no reasonable ground for expecting a larger crop than that of last year. If we accept these figures on the basis of a crop of Spring Wheat equal to 1906 we may estimate the 1907 crop as 568,000,000 bushels.

For further comparison the following table of prices since 1902 is submitted:

Prices in Chicago

		1902.	1903.	1904.	1905.	1906
January	High	.80½	.79¼	.93½	1.21	.90
	Low	.74	.70¾	.81¼	1.15½	.81¼
February ...	High	.76½	.81½	1.10	1.24	.87
	Low	.72⅞	.73¾	.86	1.13½	.79¼
March	High	.76	.75⅞	1.02⅞	1.18¾	.85½
	Low	.69¾	.70¼	.88¼	1.11	.74½
April	High	.76¾	.79	1.02⅜	1.19¾	.91½
	Low	.70	.71⅝	.85½	.86½	.77½
May	High	.76¼	.80⅝	1.06	1.13¾	.94¾
	Low	.72⅜	.74¾	.87¾	.87	.80¼
June	High	75¾	.85⅞	1.06	1.20	.89¼
	Low	.71¼	.74¼	.92	.94	.81⅝
July	High	.79	.84	1.12	1.20	.85
	Low	.71½	.75	.94½	.86½	.72½
August	High	.76	.90¼	1.20	1.15	.77⅞
	Low	.68¼	.77¼	.94	.77⅞	.69⅛
September ..	High	.95	.93	1.22	.95	.79
	Low	.70	.74½	1.05½	.78¾	.69⅛
October	High	.75½	.81¾	1.22	.92¼	.73¾
	Low	.67½	.76¾	1.09¾	.82¾	.71
November ..	High	.77⅜	.86¼	1.20	.92	.74¼
	Low	.69⅞	.75¾	1.09⅞	.83⅛	.71⅝
December ..	High	.77¾	.87	1.22	.90	.75
	Low	.71⅞	.77¾	1.11¼	.82½	.72⅝

This table is educational in several ways. It shows that great movements in wheat do not often begin and end in a month or two. It also shows that even in a bull market we must provide for severe and sudden set-backs. In the best of markets the last half is filled with soft spots. The present

market has reached this stage, and unless the speculator is prepared to take care of himself he would better keep out. The table also shows the effect of poor crops on prices. The small crop of 1904 was responsible for the greater part of the advance of 1904 and 1905. The element of the Russo-Japanese war had something to do with the case, but even if that factor had been eliminated we would have had a bull market and high prices. At present we may consider the fact of crop news being bad practically the world over will take the place of the Japanese war as an extraneous bull factor.

The factor of pure speculation must also be given due consideration in the present market. The public has been soured and disgruntled by the tactics of Wall Street and with the element of speculation strong in their breasts are just beginning to turn their eyes and purses toward La Salle Street and the Cotton Exchange. In time this will result in evil, as it always does in the last analysis. I have repeatedly called attention in these advices during the last two months to the fact that both cash and speculative lines of Wheat and Corn were resting in very strong hands. Most of it is still there. The game is young. The public are nibbling, that is all. There is also a considerable short interest of a stubborn and determined character. They will eventually get theirs.

All this is going to take time, and in my opinion the very best method of operation at present is to go on the assumption that we are in the middle of an excellent traders' market which will continue for some time. On this theory we man buy Wheat on sharp breaks in moderate amounts and with ample margins, with every possible assurance that we are trading with the current and that the two main foundations of all movements—the technical situation and the statistical situation—are both in our favor.

Cotton

It was my intention to combine in this letter statistical matter regarding Corn and Cotton, but further consideration of the matter leads me to believe that a special letter will be necessary in each instance. A special letter on Corn will be published on May 29th and one on Cotton on June 4th. Meanwhile I will say that I believe both Corn and Cotton to be excellent purchases on every decline. Both the technical and statistical situations are good and it is probable that many traders who are loath to enter the Wheat market because of its big advance will soon be attracted to Corn and Cotton.

In closing, I may add that full statistics on all these commodities are in my library, and information will be cheerfully extended to subscribers on request.

Following is the text of Mr. H. V. Jones' report of May 20th:

"We have refrained from making any statement on the wheat yield in the United States until such time as maximum total might be announced with the assurance that the figures would stand as approximately final for the maximum of production. We would place this maximum for Winter Wheat after study of condition in the fields since April 7th, at 325,000,000 bushels or 170,000,000 bushels less than last year. There is no reasonable ground for placing Spring Wheat production above last year, Government figures being 240,000,000 bushels, using that total for Spring production the best the United States can do is 565,000,000 bushels, of which 50,000,000 bushels will be macaroni, leaving the net crop of Spring and Winter 515,000,000 bushels, or considerably less than the country's requirements, and it is by no means certain the Spring crop will equal last year. Texas and Oklahoma are a failure and Kansas will produce the smallest crop in years.

"Indeed, there is chance the Kansas crop may prove next month to be almost a failure, in which case the Winter yield would drop close to 300,000,000 bushels. Kansas will not exceed 60,000,000 bushels at best if it all heads, but it is doubtful if that happens. The plant is going backward fast under drought that prevented a start in the Spring, frost that has done more damage than is now realized and bugs that threaten a new outbreak in the State in northern counties. The contest is moved, therefore, to Nebraska, where the drought has already weakened the plant. The green bug is well over the State, but it is too early to make a deduction for that State on account of insect damage, and we have not included such damage in above total. Neither can we anticipate injury to the Spring crop from bugs or weather beyond the probability of the most abnormally unfavorable season the country has experienced in years.

"The Canadian crop is admittedly short, so that European requirements will fall quite heavily upon the United States next year with only a moderate amount from reserves available for export. The loss in farm production this year will be large. The hay crop in many Western States will be short; oats are a failure south of Nebraska, and it will devolve upon the Central and Northwestern States to supply for these localities a normal amount of food for cattle. All these general shortages will have strengthening effect on the price of grains."

WEEKLY LETTER

May 25, 1907.

The week in the Stock Market has been marked by great irregularity and declining prices. Certain industrials have been under selling pressure from good quarters. This is notably true

of United States Steel Common and Amalgamated Copper, both of which stocks, despite their large earnings, large surplus and large returns on money, have been persistently sold by inside interests. This selling, however, is not of the same character as that which brought about the precipitate declines in March. The stocks mentioned, in common with many other securities, are being carefully and gradually liquidated by people who understand their business and are in no hurry. American Smelters has taken a prominent part in the movements of the week, but has been buoyed up to some extent by renewed talk of an increased dividend. As stated in these advices recently, I would consider an increase in the Smelters dividend to 10% as a bearish point on the theory that it was not wise financing and is resorted to for stock-jobbing purposes.

I continue to receive many reliable confirmations of my recently expressed opinions that we are on the outskirts, if not within the boundaries, of a commercial set-back. How severe or prolonged the depression will be I do not undertake to prophecy. I will predict, however, that what is now visible only to students of the situation will be openly apparent in a few weeks. It does not necessarily follow that when this recession appears it will affect stock prices adversely. Stocks have been busily discounting it for some months and are doing so at present. It is highly probable that when everything looks bluest, the market will have reached the bottom and be getting ready for an advance. In the early part of 1904, public sentiment was so pessimistic that the broker who recommended purchases of Union Pacific around 75, or Steel Preferred around 60, was in danger of losing his client.

We hear a great deal of late about the widespread purchases of small investors. This factor is being badly overworked as a bull card. What is the use of considering investment buying, if the investors are wrong? The public invested most enthusiastically in the South Sea Bubble and later on in United States Steel Common. I do not infer that the present situation is of this character, but there are several elements which must be given due consideration. The question at issue is not one of charts or precedents, but what stocks are worth now, and what they will be worth in the future; whether or not interest rates on stocks are better than in other investment lines where money can be placed with corresponding risk or safety.

Pursuant to my promise that certain stocks would be taken up in turn and discussed, I will next week offer a comparison between Southern Railway, Preferred and Common, and Southern Pacific. I think it better in this letter to devote space to a comprehensive review of the intrinsic merit of all leading railway shares as indicated by fixed charges. This is a primary factor of safety in making investments. A road with low fixed

charges may be able to maintain dividends, where one with high charges could not possibly do so.

*Table of Fixed Charges

Atch. Top. & Santa Fe	42%	Lake Sh. & Mich So.	38%
Atlantic Coast Line	57%	Louisville & Nash.	54%
Baltimore & Ohio	39%	Maine Central	46%
Boston & Maine	78%	Michigan Central	57%
Canadian Pacific	33%	Minn. & St. Louis	77%
Central of Georgia	47%	M., St. P. & Sault S. M.	44%
Cent. R. R. of N. J.	50%	M., K. & T.	75%
Chesapeake & Ohio	53%	Missouri Pacific	60%
Chicago & Alton	73%	N. Y. C. & Hudson Riv.	64%
Chic. & East. Ills.	68%	N. Y., Chic. & St. L.	41%
Chic. & Northwestern	39%	N. Y., N. H. & H.	48%
Chicago, Bur. & Q.	45%	N. Y., Ont. & Western	53%
Chicago Great Western	67%	Norfolk & Western	37%
Chicago, Mil. & St. P.	32%	Northern Central	28%
Chic., St. P., Minn. & O.	42%	Northern Pacific	29%
C. C. C. & St. L.	69%	Pennsylvania	38%
Col. Southern	55%	Pitts. & Lake Erie	11%
Delaware & Hudson	40%	P., C., C. & St. L.	54%
D., L. & W.	38%	Reading	45%
Denver & Rio Grande	52%	Rock Island	83%
Detroit, Tol. & Ironton	87%	Rutland	69%
Duluth, So. Sh. & Atl.	115%	St. L. & S. F.	82%
Erie	66%	St. L. & Southwestern	76%
Grand Rapids & Indiana	76%	Seaboard Air Line	78%
Grand Trunk	65%	Southern Pacific	49%
Great Northern	26%	Southern	69%
Hocking Valley	31%	Texas & Pacific	40%
Illinois Central	47%	Tol., St. L. & Southw.	61%
Iowa Central	79%	Union Pacific	31%
Kansas City Southern	54%	Vandalia	54%
Lake Erie & Western	69%	Wabash	80%
Lehigh Valley	46%	Wheeling & Lake Erie	90%
Long Island	101%	Wisconsin Central	69%

The General Situation

There are still some bad spots in the situation. From a speculative viewpoint only, liquidation has not been thorough

* NOTE.—I am indebted to Mr. Carl Snyder, author of "American Railroads as Investments," for this compilation. These are Mr. Snyder's own figures and do not necessarily agree with the showings of railroad reports. I do not hesitate, however, to pronounce them accurate.

and stocks which are being sold are not passing as yet into strong hands, in fact most of them are coming from good quarters. The fundamental situation is also unsatisfactory. The probable natural recession in general business which would have appeared, even under favorable conditions, is aggravated by an enormous borrowing demand in a bad money market and by a threatened shortage in the Wheat Crop. In this latter regard I will call attention to the absurd expressions of certain foolish optimists, to the effect that a small crop will not matter this year, because of the bumper crop and the consequent reserves of last year. It is elemental logic to say that it **does** matter. The reserves in the farmers' hands from last year has already been considered as a matter of wealth; an asset. The farmer considers his wheat as money, and in many cases he spends it as money while it is yet resting in his bins or even growing in his fields. A normal crop is his normal income from year to year. The individual farmer may be recompensed by higher prices at times, but even then it is much better to raise two bushels of wheat at 60 cents, than one bushel at one dollar. Bountiful harvests work for the general good of a community by increasing the demand for labor and decreasing the price of bread, and it is the wealth of communities, not of individuals, which goes to make good business and general prosperity.

The holders and intending purchasers of the shares of Manufacturing Corporations should give attention to possible tariff agitation. This applies particularly to Steel and Iron Companies. A leading financial publication recently pointed out the fact that the United States Steel Corporation was swelling its gross sales in its reports, by including sales between subsidiary companies. As this process in no way affected the net showing in dollars and cents, we can accept only one solution of the deception. They wished to make their profits per ton appear smaller and so lessen the probability of a reduction in a tariff which is unreasonable, not to say criminal. All these things must be considered and weighed.

The Technical Situation

The partial liquidation of the week has resulted in some switching around in the technical situation. There has been some forced closing out of weak long accounts, some buying by public investors and by speculators who have means to average trades. There has been quite a bit of good selling by strong holders and professional short selling has been mostly of a day to day character. So far as my investigations go, the technical situation is about as follows:

Strong	Weak
American Smelting.	Amalgamated Copper.
Atchison.	American Locomotive.
B. R. T.	Anaconda.
Canadian Pacific.	St. Paul.
Penna.	Colo. Fuel.
So. Pacific.	Great Northern.
Union Pacific.	N. Y. Central.
Northwestern.	Reading.
Erie.	Southern Ry.
Northern Pacific.	U. S. Steel.

This, of course, represents merely the shifting of shares, and may change in a day or two. It should never be used as a basic reason for trading, but sometimes serves to explain weakness or strength in certain quarters.

Conclusion

I cannot as yet see any reason to recommend purchases of stocks. It is my opinion that many railroad stocks have gone a long way toward discounting their troubles. A general falling off in the price of commodities would to some extent aid the railroads, by permitting them to purchase material and labor for projected extensions at lower figures. Thus the railroad corporations may gain something from the same causes which will make the producing corporations suffer. Political agitation has also been directed against the railroads and given due consideration as a bear factor. The industrial gentlemen have not yet been approached very vigorously.

I recommend sales of all industrial stocks on rallies. I prefer Amalgamated Copper, Steel Common, American Smelters and American Locomotive, but when the decline occurs, the good and bad will go together, although the element of degree will be present. In this regard it may be added that from now until the atmosphere is entirely cleared, active markets will display great irregularity. This is due to a belated process of readjustment.

I want to add one word and have it distinctly understood. I may see reason for reversing my position on railroad shares at any time. Possibly this reversal will be after an advance of several points has occurred. It is unreasonable to expect to catch the exact bottom. I note that when I write in this vein, some of my friends "read between the lines," and construe the remarks bullishly. Not so. There is nothing written between the lines in these advices. I mean what I say, neither more nor less.

WEEKLY LETTER June 1, 1907.

In the weekly letter of May 4th, I produced figures to show that it was possible for one group of stocks to decline while

another group was advancing. The object in producing these figures was to correct a prevalent opinion that the general market always moves in unison to high or low points. The computation named was suggested partly as a support to the frequently expressed opinion that while railroad shares had largely discounted unfavorable developments, industrial shares were still too high. As this contention is both interesting and important, I have compiled the following table showing a comparison of railroad and industrial stock prices and their maximum rate of interest returns at the low figures of 1903 and at present prices. Preferred stocks only have been selected for several reasons. This class of stocks is in reality a better barometer of basic influences and conditions than are the common shares, and as the dividends remain more or less unchanged the comparison is more easily examined. It may be stated further that important movements in common stocks are faithfully reflected in the preferences in a smaller degree.

Railroad Stocks (Preferred)

Stock.	Low 1903.	Rate %	Yield %	Present Price.	Rate %	Yield %
Atchison	84⅜	5	5.90	92½	5	5.40
B. & O.............	82¾	4	4.85	86	4	4.65
St. Paul............	168	7	4.20	151	7	4.65
Col. & Southern....	44½	4	8.90	60	4	6.70
C. & N. W.........	153	8	5.20	148	8	5.40
Erie 1st............	62⅛	3½	5.10	54¾	4	7.25
Reading 1st........	73	4	5.50	78	4	5.15
St. L. & S. F. 1st..	68	4	5.95	67	4	5.95
Southern Ry........	69½	5	7.15	56½	5	8.90
Union Pacific.......	83½	4	4.90	89	4	4.50

Average yield low prices of 1903..........5.76
Average yield present prices..............5.85

Industrial Stocks (Preferred)

Stock.	Low 1903.	Rate %	Yield %	Present Price.	Rate %	Yield %
Am. Car & Fdry....	60½	7	11.70	98½	7	7.10
Am. Locomotive....	67½	7	10.40	105	7	6.70
Am. Smelters.......	80¼	7	8.75	105	7	6.70
American Sugar....	116	7	6.10	124	7	5.65
American Can.......	25¼	5	20.00	53½	5	9.50
Am. Cotton Oil.....	82	6	7.25	88	6	6.85
Nat. Lead..........	75	7	9.35	97	7	7.20
Pressed Steel Car..	62½	7	11.20	90	7	7.80
Republic I. & S.....	36¾	7	19.50	85	7½	8.80
U. S. Steel.........	49¾	7	14.00	98	7	7.15

Average yield low prices of 1903.........11.82
Average yield present prices.............. 7.34

There has been no picking over of shares in this table for the purpose of magnifying results. The stocks chosen comprise about all the preferred stocks in which any degree of activity was apparent during the period named. It will be observed that while income return on the railroad stocks is now greater than at the extreme low prices of 1903, the industrials are in a very different position. It will be understood that the tables cannot be taken literally; they represent merely a broad existent condition. The net result is barometrical rather than specific. Neither is it intended that the exhibit should be accepted as a basis for purchases of rails or sales of industrials. What I seek to establish is the fact that rails are a **better** purchase than industrials if purchases are to be made at all. It would be a serious error, albeit a very common one, to accept the mere fact that income returns are now greater than in 1903 as a basic reason for buying stocks. Money is worth more today than it was in 1903 and many thinkers contend that the troubles of that year did not run their full course. I wish to again impress the fact that this table is a comparison and not a guide. Improperly accepted it might prove mischievous. This table, used in conjunction with the figures recently issued showing margin of safety and fixed charges may prove educational. I wish to say, parenthetically, that the fixed charges given in my letter of the 25th are based on the relation of interest charges, rentals and taxes, to net earnings. Sinking fund is not considered and operating expenses have nothing to do with the figures. There seems to be some misunderstanding on this point. In order to facilitate an examination of different properties I will next week produce a table showing the ratio of expenses to earnings of leading properties.

It has been recently urged in these advices that in getting ready for a possible bull campaign in stocks, careful consideration should be given, not only to the relative positions of rails and industrials, but that great discrimination should be used as to which individual properties are in the best position. The natural temptation to buy something because it is cheap or because it has suffered a radical decline is one of the most serious errors in the speculative and investment world. I find from a large and variegated correspondence, that the people who are getting ready to make purchases almost invariably lean toward the low-priced, non-dividend paying shares. This is a cardinal mistake. Statistical history shows that in all great upward movements it is the high-priced dividend payers which lead the advance. There is also present the element of reasonable returns on money. The dividend payers produce something. It is better to buy one share of a good stock than three or four shares of the low grade issues at the inception of a movement. After profits in this grade of securities have been acquired it will be time enough to go back and get the others.

As to purchases founded on mere decline it may be said that whenever a disproportionate decline occurs in a certain stock, there is good reason for it and such action should be regarded as a warning or as warranting careful investigation. This feature is well illustrated in the following comparison of Southern Pacific and Southern Railway:

Southern Railway

Year.	Gross Earnings.	Net Earnings.	Fixed Charges.	Bal. for Dividends.
1904........	45,109,777	11,994,310	8,952,328	4,180,400
1905........	48.145,108	13,062,594	9,290,423	5,151,632
1906........	53,641,439	13,868,300	9,853,358	5,229,066
8 months—				
1906-1907...	37,440,727	8,381,261	6,818,824	....

Southern Pacific

Year.	Gross Earnings.	Net Earnings.	Fixed Charges.	Bal. for Dividends.
1904........	92,933,231	26,708,526	19,053,367	8,878,484
1905........	95,515,158	29,541,722	18,422,546	11,024,173
1906..	105,632,539	35,047,360	17,829,247	18,834,963
8 months—				
1906-1907...	82,323,987	30,502,098	11,283,936	....

The eight months last given show earnings for Southern Pacific of 9.46 on the common and for Southern Railway of .52 on the common. The ratio of expenses to earnings in the period named was as follows:

Southern Pacific. Year.	Exp. to Earnings.	Southern Railway. Year.	Exp. to Earnings.
1904....................	71.26	1904....................	73.41
1905....................	69.07	1905....................	72.87
1906....................	66.82	1906....................	74.15
8 months—		8 months—	
1906-07.................	62.95	1906-07.................	77.61

The fixed charges of Southern Pacific are 49%; of Southern Railway 69%.

It must again be stated that these figures are a comparison, not a recommendation. Whatever the cause may be, bad management or misfortune, the fart remains that Southern Pacific has steadily been going forward and Southern Railway backward. Unless a radical change occurs it is far wiser to pay 80 for Southern Pacific Common than 40 for Southern Railway Preferred.

The General Situation

So far as railroad stocks are concerned I am not satisfied that the time is ripe for purchases. There are still some bad

spots in the situation and some weakly held stocks. Neither do I feel justified in recommending short sales in this quarter, for while it is my opinion that a somewhat lower range will be established in rails, the industrials offer the safest sales with the greatest promise of profit. As has been frequently pointed out in these advices, a general business depression would affect the producing companies much more adversely than it would the railroads.

The Technical Situation

The week has produced very little change in the technical situation. The bears are nervous and easily frightened into retiring their commitments and I can find no evidence of the huge short interest which is supposed to exist. The newspapers harp on the general bearishness of the public, but I find from my own investigations that a vast majority of the weaker trading element and the premature investors are itching to buy stocks. There is much of this buying in the steel and iron stocks, based presumably on the state of the markets and production. It may be well to remember in this regard that pig-iron production broke all records in 1872, just before the panic of 1873; again in 1883, the year before the panic of 1884; again in 1892, prior to the panic of 1893, and still again in 1903.

The table outlining technical position given in last Saturday's letter remains practically unchanged.

Conclusion

I recommend that sales be made in such stocks as Amalgamated Copper, American Locomotive, U. S. Steel Common, American Smelters, etc. A close watch should be kept on railroad stocks, but it is better to defer commitments for the present. There will be opportunities later to buy them fully as cheap and possibly much cheaper than at present. There is no hurry and it will be better even to pay a little more for holdings under cleaner circumstances and in a clearer atmosphere. The industrials must go lower.

WEEKLY LETTER

June 8, 1907.

In order to facilitate the examination of properties and their comparative condition, the following table has been prepared. The figures were arrived at by averaging the operating expenses, fixed charges, margin of safety, and dividends of principal properties for the last fiscal year. The stock prices are based upon the closing figures of June 6, 1907. The margin

of safety shown is the margin over common dividends. Results were as follows:

Average operating expenses	69.01%
Average fixed charges	54.70%
Average margin of safety	5.28%
Average dividend common	6.03%
Average price of stock	109⅝

As in all computations of this kind the figures are comparative and not basic. The fact that one stock is in a much better position than others does not necessarily mark that stock as a purchase, for **all** stocks may be too high, and underlying conditions may not warrant purchases in any quarter. Again, we must always consider the fact that important elements which cannot be tabulated in figures may be present. However, the table possesses value as a rough barometer and after it has been broadly applied, specific influences may be given due consideration. If, for example, we find a common stock selling well below 109⅝, with operating expenses below 69.01; fixed charges below 54.70; margin of safety above 5.28 and the dividend rate above 6%, we have a remarkable combination of facts favoring the shares and investigation will be stimulated. The figures vary widely at times in different corporations and cannot always be considered either bullish or bearish, as the good or bad features may already be discounted in the current price of the shares. It may also be found that one property is going backward gradually while another is improving its position, as was illustrated in the comparison between Southern Pacific and Southern Railway in these advices last week. To illustrate these points the following tables are given:

Margin of Safety Over Common Dividends on Six Per Cent. Properties

Road.	Margin of Safety %.	Margin of Safety $.
Atchison	8.97	9,201,033
Atlantic Coast	1.76	854,372
B. & O.	3.76	5,735,808
L. & N.	5.23	3,135,841
New York Central	*0.80	*1,417.171
Pacific Coast	6.73	471,316

*Deficit.

In the above table the six per cent. properties only have been used as being fairly representative and for the additional reason that Atchison Common is in this class and will be considered comparatively later on. Based on the first quarter of 1907, N. Y. Central failed to earn its 6% dividend by $1,417,471.

Ratio of Operating Expenses to Earnings

Road.	1904.	1905.	1906.	9 months 1906-07.*
Atchison	64.75	69.39	64.86	62.66
B. & O.............	69.06	68.09	65.85	66.81
Canadian Pacific....	69.41	69.35	62.75	65.43
C. & O.............	68.91	66.42	62.75	64.57
Erie	72.08	72.48	71.74	72.70
Ill. Central.........	74.17	70.92	70.57	70.56
K. C. Southern.....	72.86	76.03	75.30	61.81
L. & N.............	70.55	71.33	74.58	72.93
M. K. & T.........	73.16	74.54	72.85	65.83
Mo. Pacific.........	72.56	71.64	71.22	67.73
N. Y. Central......	75.96	76.13	76.41	83.55
Pennsylvania	71.29	71.67	70.84	76.05
So. Pacific..........	71.26	69.07	66.82	64.18
So. Railway........	73.41	72.87	74.15	78.34
Union Pacific.......	55.17	53.71	54.94	62.14

The favorable position of Atchison will be apparent by a glance at the above figures. The operating expenses are 62.66 against a general average of 69.01; the fixed charges are 42% against a general average of 54.70; the margin of safety is 8.79% against a general average of 5.28%; the dividend (6%) is only a small fraction under the general average and the price of the stock (88) is over 21 points below the average of 109⅝.

I have in a previous letter touched upon the bad effects upon Atchison of a wheat failure in Kansas. The soil in Southwestern Kansas is dry and sandy and it is not possible to replace wheat with other cereals as in many districts. I find that crop failures in this locality in the past have operated severely against the price of Atchison stock, but recent investigations show that since these events there has been a change in the character of tonnage and that the road is not now nearly so dependent on wheat traffic for its revenue as was formerly the case.

It is my opinion that Atchison Common may well be kept in mind as a desirable purchase, when the time is ripe and when the results of crop damage are definitely known.

* **Note.—In last column New York Central ratio is for the quarter ending March 31st: Pennsylvania and Union Pacific are based on month of March, 1907. Others are for nine months.**

The General Situation

I am not at all satisfied that the time has arrived to purchase railroad stocks, even on breaks. There is too much unrest and too much danger in the situation. Matters abroad are more strained than they are at home, and I incline to the belief that

if trouble appears it will come from across the water. I have this week letters from reliable correspondents in London, Amsterdam and Paris, and the feeling of uncertainty and uneasiness is marked at all points. While none of these dangers may come to a head, they nevertheless exist and make operations on the long side hazardous. So far as the industrials are concerned I am satisfied that they must go lower. The setback in business which has been predicted so long is already apparent to those who look a little below the surface.

In my daily letters this week I have suggested the probability of a rally of fair proportions before there is any further pronounced decline. As usual this opinion has brought forth a number of questions as to why, if I anticipate a rally, I do not recommend purchases. This question has been answered before, but I will answer it again.

The man who attempts to go both ways under the same conditions and in the same period will lose money. A rally is not a safe basis for operations on the long side. This would be more cheerfully accepted if the illustration were reversed. In a bull market it is easy to demonstrate to the ordinary man that the best policy, when a reaction is expected, is to sell out and await an opportunity to repurchase on the break, but people like the long side so much the best that they cannot see, or do not want to see the reverse of the question. Under present conditions with the situation full of danger spots which may or may not develop, it is unwise to take chances of being hung up for a long period in a losing transaction or of even getting caught in a smash. If a friend were sitting over a dynamite bomb we would advise him to move his seat, even if we did not look for an explosion. The speculators are an impatient class, they must do something every day, and the man who does something every day gets broke in time.

There is another point on which there is some misunderstanding of the true situation. In the letter of June 1st it was shown that railroads were giving larger income returns at present prices than at the low prices of 1903. This is not so bullish as it might appear. Money rates have been advancing and in 1906 rates were 5.7, as against 3.7 in 1896. This must be accorded due consideration in basing prices on income returns.

The Technical Situation

There is very little change in the technical situation. The market has been largely professional during the week. The short interest has increased somewhat and there has been some buying by small investors. The small investor, however, has been supplied of late by insiders and you can draw your own deductions as to which is the wiser. There is some pool manipulation for higher prices and a good deal of bullish talk in

offices and newspapers. On the whole, whatever change has occurred technically is in favor of a rally.

Conclusion

I think the best policy at present is to confine operations to sales of vulnerable industrial shares such as American Smelters, Amalgamated Copper, Steel Common, American Locomotive and American Car and Foundry on sharp rallies. The rails are too low to sell and there is still danger in buying them. It is well, however, to keep close track of the different corporations so we may know which is the best to buy when the happy hour arrives which will warrant purchases.

WEEKLY LETTER

June 15, 1907.

The situation in the stock market just at present is a perplexing one. Two sets of influences, directly opposed to each other, are at work and the trader or investor is more or less bewildered. There is a general desire on the part of the public to purchase shares, either on margin or for investment, but many of them are deterred by the dull and heavy tone which is apparent in all securities.

This inclination to make purchases is based almost entirely on comparisons with the low prices of recent years and a belief that much evil has been discounted in the present level of prices. This is good reasoning as far as it goes. Part of the results of expansion, inflation and chicanery have unquestionably been covered by the decline, but the question is: "Has the discounting been thorough or do present prices represent only a degree of the necessary physicking."

It is my opinion that there are still grave dangers ahead and that many of these dangers are neither seen nor appreciated by the public trading element. For the past three months I have repeatedly anticipated a falling off in general business conditions, partly by deduction and partly by means of information received from sources I consider reliable. This recession is now becoming openly apparent in isolated spots, but the general tone remains cheerful and the majority refuse to accept the theory of any decided falling off in business. The newspapers reflect this cheerful view, and it is only through private sources that I am able to arrive at the truth. From these latter I am led to the belief that business matters generally are not nearly so satisfactory and promising as they appear on the surface.

How far a depression in general business may go I will not undertake to prophecy, but I will give a decided opinion

that as long as there is an artificial attempt to stimulate cheerfulness and as long as the mouthpieces of great corporations are talking up their respective properties they are not buying stocks. No man talks up the value of a property he wants to buy. If these leading spirits were shaking their sagacious heads or even maintaining a dignified silence, I would be more inclined to buy stocks. We have heard for a month or two, for instance, that the U. S. Steel Corporation was making fabulous amounts and so forth, but the stocks go down all the same. Of course the oracles mentioned "never speculate," but we know that they **do** speculate. It matters not whether their commitments are made on margin or the stocks purchased outright. It is a distinction without a difference.

In addition to the probability of a set-back in general business, there are a number of dangerous spots in the situation both at home and abroad. It is unnecessary to enter into these things in detail, we can find it all in the newspapers. Suffice to say that there is unrest in the Balkans and the far East, socialistic troubles in England, schism in France and wild desire on the part of that country to grab for gold with both hands; unrest in China; open revolt in Russia, and so following. Inflation and the expansion of credits has been world-wide. Our own percentage of loans to deposits in last Saturday's bank statement was 102% and specie to loans less than 19%. This is not unprecedentedly bad, but it is not good.

Against all the bad or dangerous factors discussed we have two important points in favor of the exponent of higher prices. First, the extent to which the evils, present or probable, have been discounted in the existent level of prices, and second, the possibilities of pure, unadulterated manipulation.

It is my opinion that while railroad shares have gone a long way toward covering these deficiencies and possibilities, industrial shares are still to suffer. And even if railroad stocks have **fully** discounted a recession in business, it is poor policy to buy them while their position is endangered by unstable conditions. It would be much cleaner and wiser speculation to pay a few points more later on under less precarious circumstances. Speculation that makes a man lay awake nights is unsatisfactory even if it is successful.

So far as manipulation goes, it is my opinion that the possibilities in this direction are at all times vastly overestimated and that at present any attempt to artificially advance prices would be extremely hazardous. We know that banks are scrutinizing collateral very closely and that money is scarce. Again, any attempt in this direction naturally means the building up of a market on which to dispose of shares. If, as many of our nestors are telling us, stocks are really cheap and the business situation is all right, why should they exercise themselves about future prices and why build up a market on which

to sell. The two theories of cheap shares and drastic manipulations for higher prices clash. If stocks were really on the bargain counter it would be the policy of our esteemed friends to depress values, not to enhance them.

I will again express the extreme reluctance with which I extend such cheerless views as those set forth above. The time will come, and I hope it will come soon, when the long side of the market will offer magnificent opportunities, but I cannot see my way clear to recommend purchases in any quarter as yet. I realize that the short side is not popular. Some of my friends have even had the kindness to inform me that such "pessimists" as I helped to bring about bad conditions. But not so. It is the foolish optimists who are responsible for inflation and expansion of credits. From the issue of my forecast for 1904, issued on January 1st of that year, until October, 1906, I did not write a bearish word. There were reasons. At present I am paid for issuing frank opinions and the truth, no matter how distasteful, cannot hurt anyone. This is a market letter, not a jolly.

Chicago & Northwestern

In anticipation of the good time coming when railroad stocks may be confidently purchased, attention is called to the common shares of Chicago and Northwestern. I have already pointed out the fact that it is the high-grade dividend payers which start an advance, not the low-priced stocks.

Compared with the general averages given in these advices on June 8th, Northwestern Common shows as follows:

C. & N. W. Common.	%	Gen. Average %
Operating expenses	63.49	69.01
Fixed charges	39.00	54.70
Margin of safety	7.60	5.28
Dividend, Common	7%	6.03

The return on money at the present price is about 5%. This does not appear large, but stability must of course be given due consideration. With its low fixed charges, the dividend may be considered secure under any circumstances liable to occur. From a speculative standpoint it is my opinion that the stock will be a leader when the upward swing begins. The following figures show the movements of the stock for ten years:

Year.	High.	Low.	Year.	High.	Low.
1898	143¼	113¼	1903	225	153
1899	173	141¼	1904	214½	160½
1900	172¾	150¼	1905	249	190⅛
1901	215	168⅛	1906	241	192
1902	271½	204⅛	1907	205	137½

Common stock paid 5% in 1898 and 1899, 6% in 1900 and 1901, and 7% since that time. The preferred stock is entitled to non-cumulative dividends of 7%. After the common has received 7%, the preferred is entitled to 3% additional, then the common 3% additional and after this, further dividends are divided equally between the two issues. The preferred now pays 8%. In June, 1905, the outstanding stock was $22,395,120 preferred and $48,335,938 common. The common issue was raised to $58,949,900 in July, 1905.

I recommend this stock to the careful attention of investors and speculators.

The Technical Situation

I can find no evidence of the enormous short interest we hear so much about. I don't believe it exists and even if it does, the mere fact of such an interest is a poor bull argument, standing alone. If we can't find something more substantial than mere technicalities on which to base a movement we would better wait a bit. My own investigations lead me to believe that present trading is mixed and unimportant, but that most of the selling is long stock.

Conclusion

I continue to recommend sales of industrial stocks, particularly Amalgamated Copper, American Smelters, U. S. Steel Common, American Locomotive, American Car and Foundry and U. S. Realty. As to the rails, I think they are cheap but will be cheaper and advise a waiting policy and meantime a careful study of certain properties in anticipation of changed conditions.

WEEKLY LETTER

June 22, 1907.

A number of students of market movements and conditions have recently inquired as to why I give so little attention to gold production and its operations. The fact is, I have given more attention to this important influence than to any other single factor, but have realized the impossibility of entering so large a subject in the limited space at my disposal. In my forthcoming book, "The Cycles of Speculation," I have given this subject first place.

As the matter is both interesting and important, a brief discussion of an elemental nature may be acceptable.

It goes without saying that over-production in any commodity must lead to a decline in price. But gold, being a fixed standard, cannot decline in figures. It does so in fact, however,

and has been doing so for years. This is effected by prices of all other commodities rising to fill the gap and, as long as gold production increases unduly, commodity prices will continue to rise. We have witnessed an advance in prices generally of 50% during the last ten years, which can be attributed to no other influence.

The effects of this on speculative stocks and commodities are very marked. The principal influences are briefly as follows:

1. Increasing gold production is bearish on bonds and preferred stocks having a fixed rate of income.

This is due to the fact that rising prices of commodities means high interest rates. The man who loaned $1,000 at 4% ten years ago, now has his money returned to him seriously impaired in purchasing power. He has, in fact, received 40% in interest and lost 33 1-3 per cent. in purchasing power in the ten years. This must be and is, covered by higher interest rates. The world-wide decline in bonds and the popularity of short time notes is principally due to this factor.

2. Increasing gold production is temporarily bearish on common stocks of railroads.

The advance in the prices of material and labor is bound to increase operating expenses, and the **selling** commodity, i. e., transportation, does not advance easily. Profits are, therefore, continually dwindling. The time will come when this will, of necessity, be changed, but meanwhile the railroads have a hard time of it.

3. Increasing gold production is bullish on industrial stocks except those of Public Utilities Companies whose prices are regulated by law.

It will be apparent that a company which is free to advance the price of its **selling** commodity when its cost of producing is increased, is in a favorable position. The Public Utilities Companies, however, suffer from the same drawback as do the railroads.

4. Increasing gold production is bullish on speculative commodities, wheat, corn and cotton.

This is self-evident. The speculative commodities are no exception to a general rise in prices. But in this regard one point should be considered. In periods of "hard times" the prices of cheap commodities are more stable or rise faster than the prices of dear commodities. Thus corn and cotton have in recent years enhanced in price more than wheat or flax, for the reason that wages have risen more slowly than the cost of living and the wage-earners have in reality been in a steady period of hard times.

5. In making comparisons with past prices, we must consider that if prevailing interest rates on money are higher, normal prices of all dividend paying stocks would be lower.

If, for example, we find that a certain stock paid 4% in 1897 and still returns that rate in 1907, and meanwhile interest rates on money have risen from 4% to 6% in the period considered, the normal price of the stock, as gauged by dividends, would now be 66 2-3 as against 100 in 1897. That is to say, we were able to employ money at the prevailing rate of interest in 1897 by buying at par, but in order to obtain our present rates, we must buy at 66 2-3. This is a very important point and is frequently ignored in making comparisons of past and present prices.

It will appear from the above statements, that I am making recommendations at present which are diametrically opposed to my own reasoning when I advise sales of industrial stocks in preference to rails. This might be true if such factors as gold supply could be considered alone or if no reaction occurred in the gradual readjustment which this influence is bringing about. But such reactions do occur, and even if the gold supply steadily increases there will be periods where a reversal occurs, just as we find reactions in a bull stock market in spite of continued general prosperity and large earnings. I have already demonstrated in these advices that in, or preceding periods of depression, industrial stocks suffer more than rails, and furthermore, that at the present time preferred stocks of railroads are yielding 5.85%, as against 5.76% at the lowest priecs of 1903, while preferred industrial shares are now yielding 7.34%, as against 11.82% at the low prices of 1903. Aside from this discrepancy, it is my opinion that railroad stocks have already done more to discount business depression than have the shares of producing companies, and that a decline in the price of commodities generally will permit the railroads to purchase material for necessary extensions at a lower rate and at the expense of the producing companies. In short, it is my belief that while the influences of gold production are substantially as outlined, we are now in for a period of reaction or cessation in the operation of these principles; that commodities will fall in price and that industrial shares will feel the effects of this halt or reversal. There are also other factors to be considered, such as short crops, etc.

It may further appear if commodities generally are to decline, recommendations to purchase wheat, corn and cotton on breaks is inconsistent, but here again a general trend must be subsidized to specific influences. The crop situation in wheat is such as to warrant higher prices and it has already been stated that cheaper food-stuffs and textile fabrics are exceptions to the general decline in hard times.

The General Situation

The week has brought no new developments of importance. I find from my foreign correspondence and by letters from

bankers in the interior, that there is little improvement in the money situation and that funds are fully employed outside of the stock market. There is some inclination to look for a rise in prices following the July dividend disbursements, but if it is found that only a small percentage of these funds seek investment in shares, this factor may act as a boomerang because of the necessity of calling in funds already used in the stock market to meet these dividend payment without a corresponding return to market channels later.

I regret to say that I can find no improvement in the general situation this week.

The Technical Situation

As stated in recent daily letters, there is a mistaken idea that a large short interest exists. I find that most of the selling just at present is of a day to day character and that there is a widespread opinion among public investors and traders, that any probable recession in business has been discounted in stock prices and that while dullness reigns supreme, a good proportion of the public transactions are for long account. This tendency is fostered by a cheerful attitude on the part of leading financial publications, and tables showing large gross earnings and enormous surplus are continually printed. So far as gross earnings are concerned, it seems incredible that any intelligent man would be influenced by them without reference to **net** earnings, and it appears impossible to make a majority of people understand that surplus has nothing to do with the case, as it has already been considered. If, for example, the much talked of surplus accounts of the U. S. Steel Corporation or the incesurity called Amalgamated Copper were ten times their present size, the fact would have no bearing on speculation, as it would have been considered and covered in current prices. What is **known** cannot by any form of reasoning be **speculative.** The two terms are flat antonyms.

On the whole, I think the technical position is less favorable to the bulls than it was last week.

Conclusion

These advices have recently contained a brief analysis of railroad stocks recommended for examination in anticipation of better times when purchases will be advisable. The stocks so far considered, have been Atchison Common, Southern Pacific Common, Pennsylvania and Chicago and Northwestern Common. A special letter, dealing with Great Northern and other shares, will be issued June 27th.

I see no reason to change my views on the near future of the market. There will be rallies at times, one is overdue now, but under present conditions, it is safest to use these rallies

only as a basis for sales of industrial stocks. I think Amalgamated Copper, Steel Common, American Smelters, American Locomotive, American Car and Foundry and U. S. Realty will all sell at lower figures. The last named stock is not very active, but there is some particularly good selling in this quarter.

MARKET LETTER

June 29, 1907.

The present market presents many perplexing features, not as to the long future and the ultimate outcome of prices, but as to what may be expected regarding the extent of the present rally. There can be no such thing as information proper on this point, for even the promoters of the advance do not know what it is possible to accomplish and the fate of the market hinges upon the good faith of the community of interests engaged in boosting prices, as well as upon the receptivity of the public. We can, therefore, arrive at a possible solution of the question only through inductive and deductive reasoning and an examination of the technical situation.

So far as inductive argument goes, we know that rallies of greater proportions than have yet been attained by the present movement, are matters of course in every market. In my daily letter of June 25th, I undertook to establish a parallel from October 1st, 1902, to March 20th, 1903. This period was chosen because of a similarity in business conditions. During the period named, there were seven important rallies averaging five points each in rails and three points in industrials. This was in a declining market, the net decline in the face of these rallies being 23 points. The figures given in the barometer at the end of this letter will show how far we have progressed in the present movement. We may assume that if conditions are parallel, a fair rally might be called five or six points in rails and three or four in industrials. This view is not to be taken literally. The rallies mentioned **averaged** as stated—some were greater, some smaller.

From the deductive point of view, we may first inquire as to the object of the recovery, provided it is manufactured rather than natural. The most reasonable assumption is, that men who wish to dispose of shares would choose the present time above all others to help create an attractive market and a higher range of prices. On July 1st, something like $185,000,000 will be distributed in the form of interest and dividends. It is certain that some portion of this money will come back into the market. Personally, I believe the result is going to be unsatisfactory in this regard. In December, 1906, we had a little tilt in prices on this same theory and the lifting process was continued until

January 5, 1907, but the money paid out on the January disbursements failed to flow back into the market and we suffered a decline. The funds in consideration did not return to the investment market, simply because money was fully employed and was needed in other lines of business. And a great deal of it was used to prop up shaky structures. The question is whether the same thing is not necessary now. Is the general business foundation any more secure, any freer from the need of rehabilitation and support than six months ago? I think not.

I will say for the hundredth time, that the man who pretends to guess rallies cannot deliver the goods. They arise from mere switching of trades, or sometimes they are the work of manipulators, whose plans seldom leak. At times both technical and logical reasons point to a recoverv which might be called either a gigantic rally or a small sized bull market, but so far as the small shifting back and forth of prices is concerned, one man's opinion is as good as another's. I am moved to make these remarks because a good many of my clients insist on my guessing at daily changes. That it is possible to correctly judge markets for the trend and long swing, I am positive. During the last six months I have consistently recommended sales of stocks on rallies and purchases of wheat, corn and cotton on breaks. The information has been correct, As to how advantage should be taken of intermediate movements, is governed by individual trading methods.

As I have asserted in daily letters recently, it does not look probable that, if the market is being built up in anticipation of the July disbursements, it will be allowed to collapse before those disbursements are made. But again there are uncertain elements which render this view largely a surmise. There is the question of ability to carry on the advance and there is the question of certain over-shrewd individuals tailing after the big operators so heavily, that these same big men will sell out on their followers and let them hold the bag. My individual opinion is, that the improvement will be held until the latter part of next week, but, as I have stated, this is an opinion and nothing more.

The Technical Situation

During the past few days I have obtained information from six brokerage houses which cater to a public following. The public is long of stocks and they are buying more on this advance. I consider this a fair barometer of the general state of trading, as I have always found the public arrayed on one side or the other of the market so uniformly as to make the books of even one concern a good indication of general trade. There is very little selling by the public element, except by the habitues of brokerage concerns who hang over a ticker and bet the market will go lower twelve months out of the year.

All this makes for a weak technical position, and is one proof that there is more of muscle than of natural action in the present movement. So far as the action being natural is concerned, a leading financial writer states this morning that, "a market which can stand up in the face of a sharp advance in call money rates and a sensational rise in wheat, needs no apology." Perhaps not, but if anything is proved by such action, it is that the movement is one of manipulation, for when a market ignores the elements which ordinarily affect daily changes, it is unnatural.

The public favorite at present is United States Steel Common. It is being bought both on margin and for cash by a host of little fellows. Mr. Ackland, in the **Statist,** gives as one of his "reasons for being bullish" the statement that the U. S. Steel Corporation has been working nights transferring certificates to small holders. The corporation worked nights transferring Steel Common to small holders in 1902. And where is this supply of actual stock which is being so widely distributed to the dear public coming from? Certainly they are not selling to each other.

The technical position has been much weakened during this rise.

The General Situation

Looking at the long future we may put our feet on firmer ground than that offered in attempting to measure the price and time extent of rallies. And, after all, nothing more is necessary. If we can correctly judge of the general trend, we can view with equanimity any temporary fluctuations.

Aside from the clearing of the political atmosphere in France, there is no improvement in the general situation. Money continues to be fully employed and is in demand everywhere. I have before me numerous letters from Western bankers which show that money can be loaned at 5½ to 6½ per cent. on good collateral. One of the most significant features in this regard, is the character of the borrowers and that they are offering their paper west of the Missouri River at rates which make loans through a broker cost 6 to 7 per cent. These same borrowers have always found their money at home heretofore.

The expansion of our credits in the last ten years passes belief. The approximate figures for all the banks of the United States were $3,230,000,000 in 1896; $4,676,000,000 in 1900 and $8,266,000,000 in 1906. Getting down to smaller figures and a more circumscribed period, we find that all the alleged liquidation in stocks has not improved the monetary situaton at all. Our loans have not decreased nor has our specie risen **since** January, 1907, a most remarkable state of affairs.

It is my opinion that monetary and other conditions absolutely prohibit a bull stock market at present. Some of the evils have been discounted, particularly in railroad shares, but industrial stocks must suffer. A period of rest and relaxation is necessary and that means a falling off in the profits of all corporations, but most particularly the profits of producing corporations. I understand that these views will meet with opposition and even some charges of pessimism, but they are formed on exactly the same basis of my past views, i. e., a long distance view of known present and probable future conditions which make or break prices.

I advise sales of industrial stocks, such as Amalgamated Copper, U. S. Steel Common, American Smelters, American Locomotive, American Car & Foundry and Realty on any further advance or at this level with a view to averaging in the event of further improvement.

I may add that I have not depended entirely on my own views in this matter. I have been fortunate enough to talk, this week, with a number of men whose opinions are entitled to respectful consideration and have been pleased to find them a unit in supporting my diagnosis of the situation.

I recommend that my clients read carefully the address made yesterday by Elliott C. McDougal, President of the New York State Bankers' Association. It contains much food for thought. A number of leading papers have, for obvious reasons, omitted to publish this address. Copy of same will be sent to clients on request.

Average daily movements of 23 Active Railroad Stocks; 18 Active Industrials and 41 Dails and Industrials since June 21st were as follows:

Thomas Gibson's Figures

Date.	23 Rails.	18 Ind.	41 R. & I.	Adv.	Dec.
June 22..........	80.43	68.88	74.65		.03
24..........	81.07	69.03	75.05	.40	
25..........	82.57	70.29	76.43	1.38	
26..........	82.76	70.58	76.67	.24	
27..........	83.46	71.20	77.33	.66	
28..........	83.42	71.15	77.28		.05

23 Active Rails show an advance since June 21, of 3.01.

18 Active Industrials show an advance since June 21, of 2.20.

41 Rails and Industrials show an advance since June 21, of 2.60.

WEEKLY LETTER

July 6, 1907.

The recent rally in stock prices has brought about considerable speculation as to the probable extent of rallies or

reactions. There is, of course, a great difference during bull or bear periods. Strictly speaking, we cannot correctly call anything a **rally** except a temporary upturn followed by a resumption of the downward trend, and, on the other hand, a reaction proper is a temporary downturn, followed by a resumption of the upward trend. In order, therefore, to arrive at a fair idea as to the extent of ordinary rallies and reactions, it will be necessary to find, first, the principal great movements from high to low and vice versa and then examine the intermediate reversals. It is also interesting to note the lapse of time from the beginning to the end of a rally or reaction as well as in the long swings. This feature will bear studying by those who expect a recovery or set-back to begin and end in a day or two. It takes time to effect these changes, and it requires patience to operate profitably upon such changes.

In the following exhibit **percentage** of decline or advance has been considered, as well as the number of points. This is necessary because of the different initial levels of prices from which movements have occurred at various times. In fact, percentage is much more important than points, for if a market declines from an average price of 50 to an average price of 25, security values have been impaired 50%, while if the decline is from 100 to 75, only 25% of impairment has occurred, although the number of "points" decline is the same in both cases.

The principal movements for ten years have been as follows:

1.—The Bull Market of 1897 to 1899

This advance began in April, 1897, and terminated in April, 1899—two years of advancing prices. The average advance in industrial shares was 38.79 points, or about 100%. Railroads advanced 38.92 points, or about 80%.

The intermediate reactions were as follows:

Date of Reaction.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Sept. 10 to Nov. 8, 1897......	10.17	9.78	59
Jan. 7 to Mar. 25, 1898......	8.67	10.43	78
June 10 to June 16, 1898......	2.84	2.93	7
Aug. 26 to Oct. 19, 1898......	9.41	4.41	54
Jan. 30 to Feb. 7, 1899........	3.07	3.38	8

2.—The Bear Market of 1899-1900

This decline began May 1st, 1899, and culminated September 24, 1900—17 months. The average gross decline in industrial

shares was 24.32 points, or about 32%, and in rails, 13.27 points, or about 18%.

Intermediate rallies were as follows:

Date of Rally.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
May 31 to Sept. 5, 1899......	10.10	8.17	97
Dec. 18, 1899, to Jan. 2, 1900..	9.86	6.38	16
Jan. 11 to Feb. 5, 1900........	5.09	4.56	26
Mar. 9 to Apr. 6, 1900........	5.04	5.22	29
May 15 to June 1, 1900......	2.76	3.42	17
June 23 to July 23, 1900......	5.34	4.56	31
July 31 to Aug. 15...........	2.10	2.31	16

3.—The Bull Market of 1901

The advance began October 1, 1900, and culminated August 26, 1901—11 months. The average advance in industrial shares was 20.87 points, or about 39%. The average advance in rails was 37.92 points, or about 51%.

Intermediate reactions were as follows:

Date of Reaction.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Nov. 20 to Dec. 8, 1900......	5.09	1.67	19
Dec. 27, 1900, to Jan. 19, 1901.	6.29	4.39	24
May 1 to May 9............	7.55	14.49	9
June 17 to July 15...........	8.80	11.30	29
July 29 to Aug. 6............	3.89	6.64	9

4.—The Movement of 1902

The year 1902 is particularly interesting, as it shows what occurred in the market the year prior to a period of industrial relaxation. This year cannot be called either a bull or bear year, as, while railroad stocks advanced and closed the year with net gains, the industrial stocks suffered material declines. As the declines in industrial stocks was greater than the advance in rails, we will arbitrarily designate the year as a bear period and examine the homogeneous movement for rallies, instead of reactions.

From December 12, 1901, to December 15, 1902, industrial shares declined 5.74 points and rails advanced 3 points.

Intermediate rallies were as follows:

Date of Rally.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Feb. 20 to Mar. 21, 1902......	2.84	3.45	30
Apr. 10 to Apr. 24..........	2.49	4.91	15
May 19 to May 24..........	2.09	3.99	6
June 24 to July 28..........	3.61	7.44	35
Aug. 21 to Sept. 19..........	2.44	4.05	30
Sept. 29 to Oct. 3............	2.51	4.37	5
Oct. 11 to Oct. 17...........	2.73	4.96	7
Nov. 14 to Nov. 21..........	2.32	4.80	8

5.—The Bear Market of 1903

This decline began January 8, 1903, and culminated November 9th of the year—10 months. The average gross decline in industrial shares was 24.18 points, or about 36½%. The decline in rails was 32.48 points, or about 27%.

The intermediate rallies were as follows:

Date of Rally.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Jan. 20 to Feb. 16, 1903......	3.51	1.38	28
Mar. 10 to Mar. 20..........	1.85	3.11	11
Apr. 13 to Apr. 31..........	3.77	5.07	9
June 10 to June 12...........	2.60	4.48	3
Aug. 8 to Aug. 17............	6.50	8.14	10

6.—The Bull Market of 1904 and 1905

The advance began January 6, 1904, and culminated January 22, 1906—a little over two years. The average advance in industrial shares was 55.93 points, or about 119%. The average advance in rails was 49.56 points, or about 55%.

The intermediate reactions were as follows:

Date of Reaction.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Jan. 27 to Feb. 24, 1904......	3.79	4.17	29
Apr. 7 to May 18............	2.55	4.03	42
Dec. 5 to Dec. 12...........	7.46	5.93	8
Apr. 14, 1905, to May 8, 1905.	9.23	9.81	25
May 12 to May 22...........	6.68	5.50	11
Aug. 23 to Sept. 7...........	4.22	4.82	16
Nov. 1 to Nov. 13............	3.31	4.74	13

The year 1906 was a neutral year. Prices for industrials declined only slightly during the year and average prices of railroad stocks were the same in December as in January. Money could have been made throughout the period, either by sales on rallies, or purchases on declines. As a consideration of a neutral year would add little to this exhibit, it will be omitted.

7.—The Bear Market of 1907

This decline began January 5, 1907. The question of its culmination remains open. So far it has lasted six months. The average decline in industrial shares to July 1st, 1907, has been 15.10 points, or about 18½%. The average decline in rails has been 26.23 points, or about 19½%.

The intermediate rallies have been as follows:

Date of Rally.	Extent in Industrials, Points.	Extent in Rails, Points.	Duration, Days.
Feb. 2 to Feb. 13, 1907........	2.91	3.36	12
Mar. 14 to Mar. 16..........	7.46	9.00	3
Mar. 25 to Apr. 10...........	9.39	12.21	17
Apr. 15 to May 3............	3.62	4.85	19
May 27 to July 1............	3.97	6.22	36

The above figures are not given as a guide for trading, but as an interesting display of natural price changes and the time consumed in effecting such changes. The differences in the present market since July 1st, may be determined by consulting the barometer at the end of this letter. The matter is believed to have some educational value but, if used as a **basis** for trading, would resolve itself into chart-following and would prove useless.

The General Situation

There is little, if any, improvement in the general situation in any quarter and money conditions remain unchanged. The recent advance has, as is always the case, brought out a lot of fallacious bull talk, and has even resulted in some laughable attempts to contort bad features into good ones. We are told by some writers that the recent New York City bond fiasco is a bull argument "as it shows that money is seeking stock rather than bond investment." These writers fail to explain why a city bond issue has not failed before in ten years under any and all stock market conditions. The bond issue failed because money is employed in other directions. One very prominent house in its weekly financial review lays the burden on President Roosevelt and attributes the whole decline to his activities.

They fail to explain why the decline has been **world-wide.** In looking at money conditions, a number of retrospective speculators are pointing to the fact that former advances have often occurred in connection with depreciating money conditions. This is true enough, but such instances occurred while money moved from a good position to a poorer one. As matters stand now, any further increase in loans over deposits or a decline in specie would create a condition no one could ignore. Money conditions must improve, not retrograde, before any sustained advance is possible.

In an interview published in a financial journal recently, I was quoted as expressing an opinion that bonds had seen their low level for the present. This is entirely correct, but some of my friends seem to consider the opinion an inconsistency. Not so. The same influences which are operating against industrial stock prices are operating in favor of bonds. The price of bonds is dependent on interest rates, and our present high interest rates are based largely on advancing commodity prices. It is my opinion that commodity prices will soon stop advancing, or even recede temporarily. This will result in a fall in normal interest rates, and while that would strengthen bond prices, the change would be made at the expense of producing corporations.

The Technical Situation

The technical situation grows weaker with the advance. There is a gradual shifting of shares from strong to weak hands, and while prices have not as yet been allowed to sag and have been sharply bid up at times, the changing process goes steadily on. There has been a considerable reduction in the weak, short interest, but also an increase in the short commitments of important traders. I have recently written to a number of bankers in different localities, asking for the proportion of loans on stock collateral as compared with former years, and hope to present in next week's letter a clear exposition of the broad underlying, technical conditions throughout the country. Stock certificates, on which money is borrowed in a home bank, are being carried on margins as certainly as if they were street certificates in a broker's office.

The technical situation is not good.

Conclusion

In my daily letter of June 27, I suggested that the present recovery would endure until July fifth or sixth. This opinion was partly guess-work and partly based on the theory that manipulators would not see fit to build up a market in anticipation of great dividend disbursements and let it drop again

before the recipients of the dividends had a chance to respond to the hippodroming. The tables published in the first part of this letter will show that rallies vary widely, both as to extent and duration and any attempt to be exact is ticklish work. The show may continue a little further, or present prices may hold for a while with demonstrations here and there in single stocks —moving pictures to keep the audience interested—but it is perfectly safe to sell such stocks as Amalgamated Copper, Steel Common, American Locomotive, American Smelters, American Car and Foundry and U. S. Realty at this level. A little patience will be amply rewarded.

Average daily movements of 23 Active Railroad Stocks; 18 Active Industrials and 41 Rails and Industrials since June 28, were as follows:

Thomas Gibson's Figures

Date.	23 Rails.	18 Ind.	41 R. & I.	Adv.	Dec.
June 29..........	84.37	71.31	77.84	.56	
July 1..........	85.05	72.20	78.62	.78	
2..........	84.21	71.97	78.09		.53
3..........	84.21	72.51	78.72	.63	
4..........	(Holiday—Stock Exchange Closed.)				
5..........	85.36	72.81	79.09	.37	

23 Active Rails show an advance since June 28, of 1.94.

18 Active Industrials show an advance since June 28, of 1.76.

41 Rails and Industrials show an advance since June 28, of 1.81.

WEEKLY LETTER

July 13, 1907.

It appears that some of my clients have only a hazy conception or no conception at all of what can happen to the earnings of an industrial company in a period of moderate reaction in business. This fact has been forcibly brought out since my recent advice to sell Steel Common. A good many people object to comparisons between 1903 and the present year. Some of them state that we have no reason to draw a parallel between 1903 and 1907, as there is no sign of a considerable recession in business now. Others, referring particularly to the Steel Corporation, contend that the circumstances are not synonymous even if a moderate set-back in business is to appear. They point out that the Steel Corporation was in its infancy in 1903 and that the over-capitalization of that period has been largely absorbed by natural growth.

To the first contention, I will reply that there was no outward sign of a recession in business in June, 1903. The net earnings of the Steel Company in that month were $12,992,780, which broke all records for a single month, with one exception (May, 1902, $13,120,930). From June, 1903, net earnings steadily decreased until January, 1904, in which month they were $2,868,212.

To the second contention I reply that I am not talking about over-capitalization or watered stock—what I want to call attention to, is the tremendous falling off in net earnings during a halt in business. In this regard I will again point to the figures given above—a decline in net from $12,992,780 to $2,868,212 in seven months—over $10,000,000.

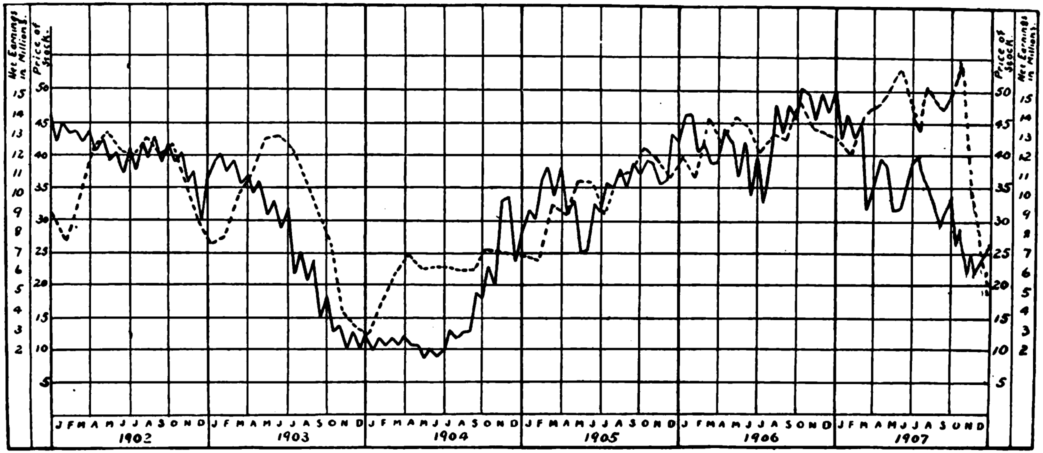
In February, 1903, Steel Common sold as high as 39⅞ and the net earnings were $7,730,361. From this point earnings steadily increased and stock prices declined until June, 1903. There was nothing unnatural about this. The shrewd minds of Wall Street put the price up to its February altitude, in anticipation of the good times coming. Six months before the bad times appeared, they sold stocks on the theory that a recession would occur. That is **speculation.** It is ridiculous to assume that we can **speculate** on present conditions—such an assumption belies the word itself. And it may be added that unless a number of misguided people had been speculating on the present in 1903—that is buying stocks on conditions already discounted in the price, there would have been no market for the shares. It is elemental to say that, when people are induced to buy anything, it must **look** good at the time of purchase—just as Steel Common and other things look good today.

The net earnings of the Steel Corporation and prices of the Common Stock by months, since 1902, are given below. These figures furnish an interesting study.

	1902	1903	1904	1905	1906
Jan....	$ 8,901,016	$ 7,425,775	$2,868,212	$ 6,810,846	$11,856,375
Feb...	7,678,583	7,730,361	4,540,672	6,629,462	10,958,275
Mar...	10,135,858	9,912,571	6,036,346	9,585,585	13,819,839
April..	12,320,766	10,905,204	6,863,832	9,037,924	12,581,901
May...	13,120,930	12,744,324	6,256,518	10,602,187	14,041,601
June...	12,220,362	12,992,780	6,370,374	10,665,004	13,501,529
July...	12,041,914	12,384,647	6,344,770	9,035,168	12,242,098
Aug...	12,972,729	10,918,174	6,202,957	10,986,901	13,158,860
Sept...	11,930,847	9,120,134	6,226,203	11,218,513	12,713,666
Oct....	12,652,707	7,675,141	7,250,204	12,400,306	14,984,925
Nov...	10,686,906	4,069,901	7,117,417	11,827,214	13,482,464
Dec...	8,646,146	3,292,140	7,099,010	10,988,541	13,282,735
Totals.	**$133,308,764**	**$109,171,152**	**$73,176,521**	**$119,787,658**	**$156,624,273**

For the first quarter of 1907, the net earnings were—January, $12,838,703; February, $12,145,815, and March, $14,137,974.

CHART SHOWING COMPARISON OF EARNINGS AND PRICE MOVEMENTS OF U. S. STEEL COMMON SINCE 1902.



Solid line indicates price movements of Steel common. Dotted line net earnings.

The most interesting feature of this chart is the movement of 1903. It will be observed that the price of the stock began declining at about the same time as the earnings began advancing and that when earnings fell off the stock continued to decline.

The apathy of the stock in the first half of 1904 reflects the distrust of a much deceived public. The action in 1907 is remarkably like that of 1903, so far as it has gone. The chart is not offered as a basis for trading, but merely to show the fallacy of purchasing shares because of good things already accomplished, and also to illustrate the fact that prices move, not with, but far ahead of events.

Prices by months since 1902 were as follows:

	1902		1903		1904	
	High	Low	High	Low	High	Low
January	46¾	41⅝	39	36½	12⅝	9⅝
February	44¾	43	39⅞	37⅛	11¾	10½
March	43½	41¾	38¾	35⅛	11⅞	10½
April	43⅞	40⅞	36½	33⅞	12	10½
May	42⅛	38¾	35⅝	30½	10⅝	8⅜
June	40¼	36¾	32⅜	28⅜	10	8¾
July	41	37⅛	31⅝	21⅜	12⅞	9¾
August	41⅝	39⅜	24¾	20⅜	12⅞	11⅜
September	42⅝	38¾	23⅜	14⅞	18⅝	12⅞
October	41⅝	38⅝	18⅛	12½	22¾	17⅝
November	40¼	35⅜	13½	10	32⅞	19⅝
December	37⅛	29¾	12⅞	10	33⅛	23½

	1905		1906		1907	
	High	Low	High	Low	High	Low
January	31¼	28¼	46¼	42	50⅜	42¾
February	35⅝	30	46⅛	40⅜	46¾	42⅞
March	37⅞	33¾	41⅞	38¾	44¾	31½
April	38¼	30¾	44⅛	39	39⅜	35¼
May	33¼	24⅞	42	36¾	38½	31⅜
June	32¼	25⅛	42	33¾		
July	35⅝	31¼	40	32⅝		
August	37⅞	34¾	47¾	39⅛		
September	38½	34⅝	47¾	43⅜		
October	39⅛	37	50¼	45⅝		
November	38½	35¼	49⅛	45½		
December	43¼	36	49⅜	46⅜		

In producing these tables there is no intention to suggest another decline to eight or ten dollars a share for Steel Common. I do not anticipate any such decline, but even a moderate falling off in business would make a big difference in the net earnings of this corporation. So far as their large surplus is concerned, it should be remembered that the corporation is now exploiting new plants at Gary, Indiana, and Duluth, Minnesota, and if, as Judge Gary informs us, the corporation will carry on these extensions without a bond issue, we may certainly look for a great shrinkage in their cash item. We all know that new enterprises are usually unproductive in their infancy, and may reasonably expect that the Gary and Duluth plants will tie up considerable sums for a long period.

In using the Steel Corporation as an illustration above, it is not the intention to make a particular target of the big concern. The same things have happened to other industrial concerns. In 1901 the net earnings of the constituent companies of the Amalgamated Copper Company were $13,511,242, and in 1902 they were $3,816,553. It is a serious, but nevertheless a very common error to belittle the effects of a business recession

on the earnings of industrial companies, or to imagine that a large surplus accumulated in good times, will prohibit a decline in the shares of such companies. All these benefits have been allowed for in the price of the stock. It is true that the Steel Corporation has made and saved large sums recently, but this fact is reflected in a very great advance in share prices. There is an old adage in Wall Street, that the statistician is always broke, but the reason for this lamentable fact is, that he is usually a statistician only, not a speculator. The statisticians, for instance, bought Steel Common in June, 1903, because of the splendid showing of that month, forgetting the important fact that all this increment had been covered and more than covered in stock prices.

The General Situation

There is no improvement as yet in the general situation. The Japanese affair is a disturbing factor, but should not yet be taken seriously. Money and crops are vastly more important. It is most unsatisfactory that after all the supposed liquidation in stocks since January first, our credits should show no contraction and that we should now face a possible deficit in bank reserves in July. Time money, which is, after all the real test of the supply, remains firm and there is not a free money market in the world. It would appear that this situation **must** be improved and it is difficult to suggest any method of radical and prompt cure, other than through a moderate recession in general business. As to the crops, we find many over-optimistic people trying to belittle our positive crop damage. It cannot be belittled. It is dangerous and foolish to evade an issue instead of facing it. The argument that our surplus from last year will carry us through a shortage is puerile. That surplus has already been considered. Wheat in the bin is money; some of that money has already been spent and all of it has been given due consideration in the basing of our wealth. A number of writers attempt to make a probable crop of 2,500,000,000 bushels of corn a "bumper crop." Their methods of arriving at this conclusion are not sound. It is certain that we should, in the natural course of events, raise more and more wheat and corn each year as the population of the world and the uses of the cereals increase. To compare one year with another will not do. Particularly in corn and cotton must we steadily increase in acreage and production, for we supply the world with those commodities. To illustrate this point, let us go back a few years and see what has occurred.

Cotton and corn production of the United States for twenty-five years:

Year.	Bushels Corn.	Bales Cotton.
1880	1,717,434,543	5,789,329
1885	1,936,736,000	6,550,215
1890	1,568,874,000	8,655,000
1895	2,151,139,000	7,157,340
1900	2,105,142,516	10,383,452
1905	2,707,993,542	11,345,988
1906	2,927,416,091	13,000,000

The time is very near at hand when anything less than 3,000,000,000 bushels of corn will be a crop failure. And high prices cannot be considered a great compensation in lean years. Short crops mean decreased demand for labor and loss of purchasing power by the common people, who are, after all, the best spenders.

The Technical Situation

The technical situation was badly weakened during the recent advance, by the advent of a crowd of credulous people who prefer to follow their "Daniel" rather than study matters out. Part of the injury has been eliminated by the recent decline but, while a number of people enter such a campaign as a gamble and quickly abandon their positions in the event of a reversal, there is another and larger class of public operators who hang on like bull dogs until they are well whipped. The technical situation is not good.

I recently made a number of inquiries as to the extent of loans on stock collateral in country banks. This investigation has not as yet progressed far enough to be definite. So far as I have gone, I find a considerably larger percentage of such loans than existed last year. The matter will be more fully covered later on.

Conclusion

While there is every incentive to advance prices now and then in order to create a market for stocks, the makers of such movements realize that their attempts in this direction are fraught with much danger. No matter how much "washing" of trades they may be able to do, they are bound to buy some stocks. It is frequently the case that after a rally such as we have recently experienced, a secondary rally is engineered in order to create the impression that the decline following the initial advance was only a "shakeout." I mention this fact, not as a prophecy, but as a possibility.

I continue to recommend sales of stocks, both rails and industrials, but more particularly the latter, and most particularly Steel Common and Amalgamated Copper.

WEEKLY LETTER

July 20, 1907.

The week in the stock market has been a very dull one and prices have drifted aimlessly according to the demands of professional speculators. At this writing, prices of leading stocks are practically unchanged from the final quotations of July 13th. Union Pacific gained three or four points as the leader of the rails, but little response was shown in other quarters of this group. Steel Common, easily the leader in the industrial group, has been quietly fed out all week and is a shade lower.

It is difficult to determine why Union Pacific should be so closely watched by public traders at present, except as a barometer of manipulative movements. The intrinsic merits of the stock do not appear to warrant present prices, and there are many more attractive bargains on the list, but it is a fact, nevertheless, that the waiting prospective purchasers look upon the shares as one of the choice selections. As an investment, I would not care to give over 110 or 115 for the stock. We have observed a decline in New York Central recently, and a well-based decline, due to the fact that, considered as an entity, the road is not earning its dividends. The same thing is probably true of Union Pacific. They are not earning more than 9 or 9½ per cent. at present on Union Pacific proper and while it is true that their investments are returning 6 or 7 per cent. more, these same conditions obtain in New York Central, and why one stock should be discredited and another widely touted under parallel circumstances, is a mystery. There is another thing to be considered about Union Pacific. The earnings have been going steadily forward for several years, and recently the advances have been tremendous. Even if earnings cease to advance for a period, which would be most natural, the effect on sentiment and stock prices would be bad. There is a new issue of $75,000,000 of bonds to be taken care of and even a cessation of the onward march would be tantamount to retrogression. And in a business recession or halt, stock prices would probably fall somewhat, even if earnings increased. In 1903, the net earnings of the system increased over those of 1902 and yet the shares declined from 104⅝ to 65¾. To show how rapidly the system has advanced its earnings, look at the following figures:

Year.	Net Earnings.	Per Cent. of Oper. Expenses.
1902....................	21,941,053	53.81
1903....................	22,327,973	56.28
1904....................	24,781,788	55.17
1905....................	27,462,235	53.71
1906....................	30,317,769	54.94

This is very gratifying, but dividends have been increased in the period covered from 4% to 10%, and operating expenses, in March, 1907, suddenly advanced to 62.14. I do not think the next statement on Union Pacific will fill the friends of the stock with quite so much enthusiasm as heretofore.

Amalgamated Copper, at its meeting on July 18th, startled the bears by making the rate 2% flat, instead of 1½ and ½ extra. This is popularly supposed to reflect confidence on the part of the management that the rate can be maintained. There is nothing in the history of this concern to show that they have any hesitation about discontinuing dividends—after the shares have been sold to the public. The company paid at the rate of 8% from October, 1899, to October, 1901, and then began reducing dividends rapidly. It is my opinion, that the present action is a cheap and efficient method of encouraging the public to buy the shares. No money was involved, merely a change of form, and it is practically certain that a reduction from 8% to 6% would not make the stockholders howl any more vigorously than would the mere cutting off of the "½% extra." The effect on the pocketbooks would be exactly the same and that's about all stockholders care about.

Several months ago, I stated that Copper, the metal, must decline in price. At that time producers laughed at the idea of any reduction. The reduction, however, is going on and will go considerably further. It is wise to pause and think what each cent per pound decline means in net earnings. I think advantage should be taken of every advance in Amalgamated Stock to sell it short. The stock is for sale by its own sponsors on every hard spot.

United States Steel Common is, in my opinion, the safest stock on the list to trade in. There is enough of the issue to forbid any great manipulation and the question of a falling off in business in the iron and steel world is no longer debatable. It is true that we hear a good many cheerful utterances from high quarters, but that is nothing new and does not affect the genuine situation. Even the **Iron Age** admits the truth. In the last issue this paragraph appears:

"Rarely have reports from all parts of the country agreed so thoroughly concerning the condition of the pig iron markets. They are lifeless. Practically all pressure for immediate delivery has disappeared, and the complaint is even cropping up among melters that some furnaces are crowding shipments on them. Some foreign pig iron is still straggling in, but prices must be made pretty low to move it."

The General Situation

In spite of a generally cheerful tone, fostered and promulgated by the newspapers, we are certainly facing a decline in general business. It is best that the decline should appear.

Our credits are strained and they can be made healthy only by reaction or a halt. I realize that this kind of talk is not popular, but it is necessary.

The above remarks may appear to be unqualifiedly bearish —such is not the case. It will be found that prices of **good** stocks will be advancing while we are in the midst of our business depression, but it will be necessary to use great discrimination as to what is **good.** I do not think it will be three months until I will feel safe in advising purchases in certain quarters with absolute confidence and it is highly probable that about the time when purchases are really warranted, everybody will be sceptical and disgusted. That is the history of the Street. And in this regard I wish to point out one very common error; the desire to buy low-priced shares. This is a great mistake. Every bull market begins with the high-priced dividend payers and it is far better to take up these stocks first. They will start the advance and in addition to this, returns on money in the form of dividends will carry the stocks—make them pay their way. Looking at the matter from a speculative point of view, the following tables will show the difference in opportunities at the beginning of a movement, as compared with later periods:

High Priced Stocks in 1904

Stock.	Low in March.	High in April.	High in July.	High in Dec.
Atchison	64	75¼	79⅞	89⅛
B. & O.	72⅞	82	85⅞	105¼
St. Paul	137⅞	146⅛	149¾	177⅝
C. & N. W.	161⅛	172	180¾	214½
L. & N.	101¾	110	118	148¾
M., St. P. & S. S. M.	59	63	75½	91⅛
Mo. Pacific	87	95	95½	111½
N. Y. Central	112⅞	118¼	120⅝	145½
Penna.	111½	119⅞	121¾	140
Union Pacific	71	90	99	116½

Low Priced Stocks in 1904

Stock.	Low in March.	High in April.	High in July.	High in Dec.
C. & O.	28¼	33⅝	35⅛	50¾
C. & G. W.	14	17⅝	15¼	25⅜
Erie	22⅜	27⅝	26½	41
M., K. & T.	15¼	18⅛	18⅞	34¾
O. & W.	19⅜	22¼	31⅝	45
N. & W.	53½	59¾	62⅞	80½
Reading	38¾	45⅞	54¾	82⅝
Rock Island	19⅛	25	24	37¾
Southern Ry.	18⅝	22⅞	25¼	37½
Southern Pacific	41½	51⅜	52⅝	67⅞

There are several things to be considered in consulting this table. In the event of extended dullness, the high-price shares are productive and their stability is greater. In the event of activity they will lead the market. The table also shows, very forcibly, the necessity of an intelligent choice of properties.

The Technical Situation

The shifting about of trades this week has been of a highly professional character, and it is not safe to base technical conditions on this day-to-day trading. There has been, however, quite a bit of public buying in the industrial stocks, particularly Steel Common. There has been some public buying of St. Paul, Union Pacific and Great Northern. There is also a considerable semi-professional element long of stocks with stop-orders two or three points below the market.

An inquiry make of Western bankers last week as to the percentage of stock certificates held as collateral for loans, brings out a grudging admission that such loans are heavier than last year. Such of my correspondents as saw fit to reply to the inquiry state that such loans are made on a margin of 10 to 20 per cent., which is equivalent to a long interest on just such margins in the New York market.

The Best Method at Present

Considering the professional character of the present market and the dangers of accident, I think the best method just now is to confine operations to sales of industrial stocks on rallies of a few points. It is probable that United States Steel Common is the safest and surest of the list for such operations. Many good turns can be made by selling this stock on advances of two or three points and accepting fair profits. Amalgamated Copper will also fizzle out after each advance and Smelters is in a weak position. I note some particularly good selling in the last named stock on every recovery.

As to purchases, it is better to wait a bit. It is natural that people who have money to invest should grow nervous and impatient when they are treated to the edifying spectacle of one or two stocks being whooped up a few points, and when they read and hear all sorts of predictions as to our excellent business and financial conditions, but it may be confidently stated, that all these stocks can be bought as cheap or cheaper later on without the hazard which is attached to premature purchases. Patience at the present time is a cardinal and necessary virtue. There will be a period before long when money can be made rapidly. It will, in fact, be an opportunity of years, but until an improvement appears that is genuine and fundamental rather than based on undue optimism or Wall Street hot air. purchases in any quarter are ill-timed and rash.

WEEKLY LETTER

July 27, 1907.

The week in the stock market has developed some interesting features. The principal topic of discussion has been the much heralded increase in the Southern Pacific dividend. So far as can be judged by the estimate of that company's annual report a 6% rate is justified and will probably be declared at the adjourned meeting of August first. There is a shrewd suspicion on the part of many people, however, that the fireworks in Southern Pacific have been created largely for the purpose of facilitating sales of Union Pacific, and this view is pretty well borne out by the fact that Union Pacific has made a net gain of only about one point on the week, while Southern has advanced six points. In the natural order of things, Union Pacific, considering the benefits accruing from an advance in Southern Pacific dividends and the higher price of the stock, should have advanced about ten points.

The industrial group has been heavy throughout the week. Steel Common and Smelters have made no gains and, but for sympathetic influence, would undoubtedly have declined.

In fact, the appearance of the entire list has been very deceptive. Attention has been so successfully directed to one or two stocks, that the ordinary observer is surprised at the statement that stocks generally have made no considerable gains during the week or, for that matter, during the month. I give below the figures to establish this fact. As the figures of the **Wall Street Journal** and my own computations vary somewhat, through the employment of different stocks in the calculations, I will give both:

Wall Street Journal			**Thomas Gibson's Figures**		
	Rails.	**Industrials.**		**Rails.**	**Industrials.**
July 1	105.72	81.27	July 1	85.05	72.20
July 20	107.20	81.33	July 20	86.37	72.26
July 25	107.39	81.11	July 25	86.53	71.98

Both barometers include Atchison and Southern Pacific, so it will be observed that even with the advances in these stocks no marked improvement is shown and it may be further noted that one hour of moderate decline would wipe out the gains of almost a month and leave the list actually lower.

There has been a very marked improvement in public sentiment, and it is certain that a fair amount of stocks have been taken by public and semi-professional traders. This change of heart is largely due to the cheerful reports of general business and railroad earnings for the last year and the prospects of dividend increases in certain quarters. It is impossible to imagine anything more illogical than speculation based on the

reports of a corporation for the year ending June 30, 1907, but that is exactly what goes on from year to year and what is going on now. It is useless to contend that the past performances indicate what may be expected in the future, for if this were true there would be no such thing as speculation. All that would be necessary would be to take up a stock which had shown a good increase for a number of years and buy it. Neither do dividend increases warrant the assumption that stocks will advance. In nine cases out of ten, such increases are anticipated and considered in the selling price of shares, not after they are made or even when they are made, but long before any actual increase occurs. In 1893, for example, dividends reached their maximum, and we had a panic. Also a great many people appear to think that if increased dividends are to be **maintained** prices cannot fall. This is another mistake. In 1903, dividends were much higher than in 1901 and in 1905 and 1906 dividend rates were not only maintained but increased, yet the market in 1903 declined 35 points. The following figures establish these two points:

Dividend Rate on Twelve Leading Rails Since 1899

Corporation	1899	1891	1893	1895	1901	1903	1905	1906	1907
Atchison	0	0	0	0	3½	4	4	4½	6
B. & O.	0	0	5	0	4	4	4½	5½	6
Can. Pac.	3	5	5	0	5	5½	6	6	7
Jersey Central	3	5	7	5½	5	8	8	8	8
C. M. & St. Paul	0	0	4	2	6	7	7	7	7
C. & N. W	6	6	6	4	6	7	7	7	7
L. & N	5	5	4	0	5	5	6	6	6
Mo. Pac	4	3	0	0	2½	5	5	5	5
N. Y. Central	4	4½	5	4¼	5	5	5	5	6
Nor. Pac	0	0	0	0	4	7	7	7	7
So. Ry. Pfd	0	0	0	0	4	5	5	5	5
Union Pac	0	0	0	0	4	4	4½	8	10
Average 12 Stocks	2.08	2.40	3%	1.31	4.50	5.54	5.75	6.17	6.50

The declines in 1893 and 1903 were caused by a recession in general business and it will be a very good idea for the speculator to give his attention to our future business prospects in basing operations, rather than to depend on dividends or earnings for 1906-07 which, so far as speculation is concerned, are dead, and lie wholly in the past, with their full influence already contemplated in current prices.

The General Situation

There is no improvement in the general situation. There has been during the last two weeks some picking up in surplus reserves, but the improvement is of a negative character, for our present surplus is the lowest in ten years, and the last report

of all the national banks of the United States show a percentage of specie and legal tenders lower than since 1893. The reserve of the Bank of England, is the lowest for a corresponding period in seven years. In Germany, conditions are worse than in England and France is no better off. The little improvement in consols from 83 to 84½ proved to be only temporary, and no better index of conditions in the investment world could be found than the prices of the world's premier security.

There have been times in the past when we have been very much helped in hard periods by unusually large crops of cereals and cotton. There is no promise of such assistance this year. A certain class of cheerful rooters are trying to tell us that a loss of 100,000,000 bushels of wheat doesn't make any difference. There is no law of economics which will uphold the theory of benefit from the destruction of property, and furthermore it is the **surplus** which counts. The loss in purchasing power in certain localities through the failure of fruit and vegetable crops is practically ignored; few people appreciate the fact that our fruit and garden truck amounts to more, measured in dollars, than our crop of spring wheat.

The eminent authorities who told us a few months ago that there was to be no falling off in business conditions or in the steel and iron trades, have now admitted their mistake and have changed their tune to a "healthy recession" which is about the verbal equivalent of a healthy sickness. It is true that liquidation and a contraction of credits will make for better times and better conditions, but the necessity of such contraction in an evidence **per se** of prior inflation.

The Technical Situation

The technical situation has unquestionably undergone a change for the worse during the week. In every broker's office we now find a crowd around the ticker, where a few weeks ago the little machine was wasting its sweetness on the desert air. These people are all bullish; you can almost tell what the market is by glancing at their faces. The technical situation has been greatly weakened by the accumulation of stocks on short margins and the market is honey-combed with stop loss orders.

Conclusion

Some of my friends are inclined to protest a little because I do not advise purchases in any quarter at present. The trouble is that a good many people see what they could have done rather than what they would have done. The market, as a whole, has made no advance recently and that is the real test, rather than to figure that some isolated security would have been purchased at the bottom and sold at the top. Aside from

this, the element of extreme danger is too great to admit of advice to assume a position on the long side. There may be further advances in certain stocks through manipulation, between now and September, but such advances are created for the sole and only purpose of shifting stocks into public hands, and as sure as fate a lot of these impatient buyers will be caught with the goods on them when the break appears, just as they were caught six months ago and every year since the Stock Exchange was organized. What I am trying to do in these advices is, to offer counsel founded on experience and a study of conditions, not as to daily changes, but of such character as will produce a profit of fair proportions at the end of each year's trading, instead of the everlasting losses which are a part of public speculative history. I am not in the "tipping" business, and the form of advice mentioned above is all I have to offer.

I may, however, offer a general suggestion as to my view of the future of the market, which is, of course, subject to change any day, in case I find myself mistaken or in case of a change in conditions. I feel that the crucial test is going to come in September and that while manipulative jockeying may go on for a few weeks, there is danger of a perpendicular decline between now and the middle of September. After this clean-up occurs, I am inclined to look for some improvement in money conditions and the beginning of better things. The principal thing then to be considered, will be the status of individual properties—what to buy. As has been stated, this view is subject to alteration at any time.

Meanwhile, I do not think there is any risk in selling industrial stocks on every rally. Everything considered, I like Steel Common the best, as I know of good selling in this stock. Smelters is also well sold and Amalgamated Copper, although logically employed as the leader of manipulative moves in the industrials, will sell lower.

To those of my friends who want to jump in and reap a few points profit on hurrahs in certain rails, I can only say—don't do it. It is mighty poor speculating to go into a market under bad conditions with a possible opportunity of four or five points profit or twenty points loss. There will be plenty of time to get on the long side, under clean conditions and good prospects. The market will be with us right along.

WEEKLY LETTER

August 3, 1907.

The week in the stock market has been without salient features. The dividend on Southern Pacific was advanced to a 6% basis, but as this had been universally anticipated, there was little market affect. Meanwhile prices drifted to lower

levels and whatever little improvement has occurred in the last six weeks was more than cancelled. A noteworthy feature of the recent decline has been the disproportionate decline in industrials as compared with rails. It has been constantly pointed out in these letters for several months that in the event of a decline, the industrials would suffer far more than railroad securities. As to how correct this idea has been, it may be said that industrials at the close of business Thursday night were only 2.95 points above the extreme low prices of March 25, while rails are 6.59 points higher. This may not appear as a marked discrepancy, but it shows the gradual working apart of prices in the two groups.

On the next page is reproduced a chart showing the influence of earnings on stock prices in United States Steel Common. This chart was kindly prepared for me by Mr. P. W. England, of Philadelphia, Pa. It is based on the figures given in my letter of July 13th, but it is my opinion that it brings the movement more clearly before the eye than does a mere tabulation. Just at present the chart is unusually interesting and timely.

The weakness shown in Amalgamated Copper in the recent decline is not surprising. It is impossible to imagine why people who have access to the most elementary facts bearing on this property can view it with anything but extreme distrust. And yet it has been a public favorite. Let us reason the matter out briefly.

To begin with, the stock is a blind pool; it has a bad record; it pays tribute to the United Metals Selling Company in such a liberal way that the latter organization can pay more than 20% per annum in dividends. These things in themselves would drive intelligent men away from the proposition anywhere on earth, except in Wall Street. But there are other things more specific and more pertinent to the near future of this concern. They have recently put the stock on an 8% basis. The change was merely a form of words, however, and involved no increased payment. It was popularly supposed to represent confidence on the part of the management that dividends could be maintained at that rate. In truth it represents nothing at all, except possibly, a stock-jobbing factor. The corporation paid at the rate of 8% in 1899 and 1900 when their capitalization was only $75,000,000, less than half what it now is, and could not maintain the rate.

It is not difficult to arrive at a fair conclusion as to the future of the Amalgamated dividends. It all depends on the price of copper, the metal. The corporation handles about 225,000,000 pounds of copper in a year. For the year ending April 30th, 1907, the earned $14,154,400. The price of copper from April, 1906, to April, 1907, averaged at least 23 cents a

pound. Now every decline of one cent in the price of the metal means $2,225,000 off their net. It may be contended that cost of production will fall sharply with the selling price, but not so. The principal cost of production is labor, and it will take just as many laborers to produce a million pounds of copper when the metal sells at 20 cents as when it sells at 25. Also the Amalgamated Company has a five year agreement with its employes at a fixed rate.

If, however, we allow $225,000 for decreased cost of production, we will still have a shrinkage in net of $2,000,000 for every cent decline in the price of the metal. Let us experiment with this fact.

Twenty Cent Copper

Net earnings of 1906-07 (23c copper)	$14,154,400
Twenty cent copper would reduce by	6,000,000
Total net on twenty cent copper	$8,154,400
Necessary for dividends at 8%	$12,000,000
Deficit	$3,845,600

Eighteen Cent Copper

Net earnings of 1906-07 (23c copper)	$14,154,400
Eighteen cent copper would reduce by	10,000,000
Total net on eighteen cent copper	$4,154,400
Necessary for dividends at 8%	12,000,000
Deficit	$7,845,600

Of course there is a surplus, but never mind about that, it is all considered and discounted. It is a known quantity and not a speculative factor.

In case the above figures should appear extravagant to some of my optimistic friends, let me show what occurred in 1901 and 1902 on a decline of about 3½ to 4 cents a pound in average copper prices.

Net Earnings of Constituent Companies of Amalgamated Copper Company, 1901 and 1902

	1901.	1902.
Anaconda	$5,069,071	$1,289,610
Boston and Montana	7,042,303	1,630,695
Butte and Boston	586,053	166,136
Parrott	510,196	577,617
Col. Mining	303,619	152,495
Total	$13,511,242	$3,816,553

The question resolves itself to the average selling price of copper in the future as compared with the price obtained in 1906-07. I have insisted for five months that the metal must decline. It has already done so and will sell still lower.

We also find that the production of the Amalgamated Company is falling off a little. This fact has recently been put forth as a bullish argument on the price. Of course, such talk is silly. If the Amalgamated Company controlled the copper output of the world, a shrinkage in their own production might find a recompense in higher prices. But they don't. The world's annual production of copper amounts to almost two billion pounds and whatever shrinkage a single company suffers is a loss to that concern.

The General Situation

There is no improvement in the general situation. It is very hard to secure funds for even legitimate enterprises, and the people who, a month or two ago, were insisting emphatically that no recession in business would occur have now admitted, perforce, that the recession is already upon us. It must go further. It must, in fact, go on until the liquidation and elimination of weak spots is complete. Then, and not till then, we may look for better things. The process of physicking may be easy and prolonged; it may be drastic and of brief duration. It is hard to say which would be the better method for all concerned. So far as stocks are concerned, they will begin advancing when everything looks the bluest and when the disgusted public will have none of them. Some stocks are cheap now, but they will be cheaper. We can wait, we want not only good bargains, but excellent bargains, if we are to overcome the numerous drawbacks which beset the path of the speculator or investor. I do not thing the redajustment of comparative values has been thorough as yet. In the railroad group, St. Paul, New York Central and Southern Ry. Preferred are entirely too high, as compared with Pennsylvania, Atchison and Chicago and Northwestern. The merits of the respective shares will, however, assert themselves and prices will be adjusted correctly.

English consols have this week touched the lowest prices in forty years, and little reaction has occurred. This decline does not reflect local conditions, but shows very forcibly that money is not seeking investment in securities.

The Technical Situation

A good many of the stop orders referred to in these advices last week have been reached in the last few days and the technical position may be a trifle improved. But it must also be admitted that the declines which eliminated these weak accounts

have weakened by so much, accounts which were originally a little stronger. There is still a pretty big outstanding long interest which might be gunned for at any time. I do not note a great deal of short selling and those who have recently covered short lines inform me that they got their stocks back very easily, particularly the industrials.

Conclusion

I see no reason to alter or even modify my position. Industrial stocks should be sold on every rally. I like Amalgamated and Smelters better than any of the others. I believe Steel Common will sell much lower, but feel that the action in not increasing dividends at the last meeting is conservative and laudable. It contrasts sharply with the action of Amalgamated and Smelters. St. Paul should be sold on rallies. It is too high. On the basis of present earnings they are not earning enough to pay 7% on their new issue of stock. So far as purchases are concerned—wait a bit. We will get them cheaper later on.

There will, of course, be rallies in the market and these rallies will be accompanied by the usual grist of official and semi-official hot air, but the rallies will not endure. No sustained advance can occur in stocks until some of the weak spots are eliminated.

WEEKLY LETTER.

August 10, 1907.

It is not often that the speculator is called upon to face a more perplexing situation than that which exists at present. We have on one hand low prices following a rather severe decline, and on the other hand a long string of bad conditions which show no evidence of immediate improvement. The money situation is no better and money cannot be borrowed even at high rates for legitimate purposes. This being the case, it is hard to imagine where funds would come from for the purchase and support of stocks in the event of necessitous liquidation in any quarter. If some individual or concern found it necessary to dispose of a considerable line of securities, who would buy them? Who *could* buy them? This last question I will answer in a most surprising way. The public have greater capacity for purchases now than the professionals. The middle classes have money, the savings banks are full of it. It is the big fellows who are on the anxious seat, not all of them, but a good many of them. I may reasonably consider my own correspondents and acquaintances as fairly representative of the well-to-do public and I find that hundreds of them have money ready to purchase stocks when the psychological moment arrives. No doubt a great many of this class have been a little precipitate and have already taken on stocks, but the purchas-

ing power in this direction is still enormous. This is a reversal of the ordinary state of affairs, for which let us be devoutly thankful.

The greatest incentive to purchases just at present is an assumption that income returns are very large as measured by the prices of securities. This is true enough, but money rates are high and this fact must be accorded due consideration. The following table, showing the approximate yield on seven leading dividend-paying rails at the low prices of 1893 and 1903, illustrates this point. The figures are only approximate but are nearly enough exact to serve the purpose of this illustration:

Stock	Low 1893.	Div. Rate.	Income Return.	Low 1903.	Div. Rate.	Inc. Return.	Close Aug. 8, 1907.	Div. Rate.	Inc. Return
B. & O..........	54½	5%	9%	71⅝	4%	5½%	95½	6%	6⅜%
Can. Pac.........	66	5	7⅝	115⅝	6	5¼	178½	7	4⅛
St. Paul..........	46⅜	4	8¾	133¼	7	5¼	125¾	7	5⅝
C. & N. W......	84⅞	6	7	153	7	4½	145	7	4¾
Ill. Cent..........	86	5	5¾	125⅛	6	4¾	137	7	5⅛
L. & N..........	39¾	4	10	95	5	5¼	108	6	5½
N. Y. C.........	92	5	5⅜	112⅝	5	4½	109⅛	6	5½
Average........			7⅝%			5%			5¼%

It will be observed that while returns are now a shade above those of 1903, they are far below 1893. But there is something more important than this. The low prices of stocks in 1893 were established in July. Rates for time money were from 4 to 6% in that month. The lowest prices in 1903 were established in September. Time money in that month ranged between 5 1/4 and 6%. The rates named were for six months loans, and at present the rate is 6½% for the same character of loans and security and 7% for industrial loans. This makes a tremendous difference. Money will naturally seek the maximum of safe returns.

And there is another important feature to consider. Can the present dividends be maintained? Personally, I would say without hesitation that they can not. There are one or two bad spots where a reduction appears to be only a question of time. The increased capitalization of St. Paul, for instance, leads to the belief that 7% cannot be paid on the stock. Other roads, like Union Pacific, have shown up wonderfully well in reduced cost of maintenance of way, etc., but I think this means simply that the way has not been maintained and that large sums will have to be diverted to this item in the future. In the industrial group such concerns as Amalgamated have reaped large returns from the fictitious prices of their selling products. Already we have prima facie evidence that the halcyon days are over. One would think to hear the average optimist talk that a dividend reduction was an unknown thing, but we have seen them very frequently. We may see them again.

The rank and file of speculators are inclined to attribute the recent shake-out to the immense fine levied on the Standard Oil Company. I consider this a mistake. It may have hurried matters a bit, but the decline was mainly due to bad general conditions. It will be at least two years before a final decision is reached in the Standard Oil affair, and had the market been on a firm founda-

tion, the matter would have been only an incident in shaping prices. All the effects of political affairs and state legislation have been grossly over-estimated. Our great slump was caused by too much prosperity and inflation. The signs were plain enough six months ago to those who could read them. In this regard it is interesting to note what Theodore Burton says about signs preceding crises. Mr. Burton gives seven indications, as follows:

"*Preceding Indications.*—This preceding period is characterized by well-defined indications, some of which develop contemporaneously, but which, so far as they are distinct in time, occur in approximately the following order:

"1—An increase in prices, first, of special commodities, then, in a less degree, of commodities generally, and later of real estate, both improved and unimproved.

"2—Increased activity of established enterprises, and the formation of many new ones, especially those which provide for increased production or improved methods, such as factories and furnaces, railways and ships, all requiring the change of circulating to fixed capital.

"3—An active demand for loans at slightly higher rates of interest.

"4—The general employment of labor at increasing or well-sustained wages.

"5—Increasing extravagance in private and public expenditure.

"6—The development of a mania for speculation, attended by dishonest methods in business and the gullibility of many investors.

"7—Lastly, a great expansion of discounts and loans, and a resulting rise in the rate of interest; also a material increase in wages, attended by frequent strikes and by difficulty in obtaining a sufficient number of laborers to meet the demand."

It is not difficult to see that all these signs have preceded our recent collapse. True, there was no appearance of a decline in general business until long after stocks had slumped, but the falling off is now a matter of fact, not conjecture. I remember that six months ago, when in these advices I insisted that there must be a recession in business and a drop in iron and copper, my remarks were greeted with much indignation and some ridicule. Yet these views were based on truths that must appear elementary.

But this question of the priority of stock prices; this fact that stocks declined long before trouble was openly apparent, brings us around to the most important feature of the present situation. Just as share values fell in advance of business recession, so they will rise before improvement is visible to the naked eye, and for this contingency we must be prepared.

In spite of the bearish arguments set forth above and in spite of the fact that there is grave danger of a further collapse, I believe the very best policy just now is to get ready to make a turn on the long side. I am not at all satisfied that stock prices are as yet near the ultimate bottom. I am sure some of them must go lower. There are, however, stages in every market when an advance is likely to occur which might be designated either as a gigantic rally

or a small-sized bull period. When this event occurs it will cover a period of weeks, possibly months. The principal thing to be considered in taking advantage of such a movement will be the character of the securities purchased. I think such stocks as Pennsylvania, Atchison, L. & N., Norfolk & Western and Chicago & Northwestern offer the greatest degree of safety together with the probability of maximum profits. Such stocks as Canadian Pacific, D. & H., New York Central and Southern Railway should be avoided.

I will qualify the advice given above by saying that I will not be a bit surprised to see a sudden realizing movement in this market any day which will appear almost panicky. It is on that movement that we want to pick up some bargains. In case such a movement appears, I will promptly telegraph my clients, and as a telegram will necessarily be brief, I will explain here that I do not pretend to guess the exact bottom and that advice to buy means to buy *good* stocks and be prepared to margin and average if necessary. It may be further suggested that the recovery, when it comes, will be very rapid and material.

Some of these industrial stocks must sell lower. Take Smelters for example. A number of clients seem to labor under the delusion that a fall in metal prices will not reduce the Smelters Company's revenue. This is entirely wrong. Smelting prices are, in the majority of cases, based on metal prices.

I hope to be able to make my opinions more definite before long, but must be satisfied at present with saying in a general way, that while prices will probably go lower and possibly considerably lower, it is better to await opportunities to buy than to press the short side too far. I will even go a little further, and say that people who are willing to stand temporary grief, protect themselves in a bad slump and average fearlessly if the slump comes, need have no hesitation in buying good things right now.

The Technical Situation.

The technical situation has not been improved by the recent selling. While a great many weak stocks have been dislodged, the position of other lines has been rendered precarious by the lower quotations. A large portion of the recent forced selling came from one individual. He still has stocks. Whether or not he will be able to tide over I do not care to predict.

WEEKLY LETTER.

August 17, 1907.

The week in the stock market has been a most important one. Prices have crumbled to levels, the mere mention of which was laughed at a month or two ago. The air has been full of rumors of ruin and disaster. The names of individuals and firms have been ruthlessly besmirched by irresponsible people and the atmosphere is so blue in every direction that it appears as if nothing but

panic confronts us and purchases of stocks are looked upon as madness.

It is my opinion that all this indicates the very best time to pick up bargains in good shares. That conditions are still bad in the money world is freely admitted. The expansion of credits has been enormous and this condition will be cured only by contraction and a reasonable house-cleaning. But this bad state of affairs which has been created by extravagance and inflation the world over, is not going to put us out of business. We will go on raising crops, we will go on producing and manufacturing in every line. Our great resources are still with us. There will be some slowing up, some few wheels will stop turning, but there will be no cataclysm of ruin and disaster.

It is very difficult for a man to decide to buy stocks just now. Purchases at present require boldness and courage. I cannot recall a single period in the market in twenty years where it did not require all the courage a man could summon to either buy stocks near the bottom or sell them near the top. It always *looks* so positively different from what it *is*. But let us consider the matter from that standpoint of previousness in the stock market, about which I harp so much. It has been found, not only in the last six months but in all great movements, that stock prices went down and down, long before the causes which brought about the decline were apparent, and, by the same token, they go up and up long before improvement is apparent.

We may, perhaps, gain a birdseye view of the present situation in the stock market by contemplating what declines mean from now on. Suppose an average decline of five points in stocks from this level, which would hurt no speculator who had made wise and timely purchases, we would have prices which must appear low by comparison with any level since 1893. That is, of course, if we consider the difference in income returns on money, which is the only correct way to figure results.

The income returns on stocks at the closing August 14, which was the lowest day in 1907, were as follows:

Closing August 14—Lowest Average of the Year.

Stock.	Price.	Div.	Inc.	Stock.	Price.	Div.	Inc.
Atchison	83	6%	7¼	L. & N.	105	6%	5¾
Atlantic Coast...	78	6%	7¾	N. & W.	70	5%	7⅛
B. & O.	91	6%	6⅝	N. Y. Cent......	101	6%	6
C. & O.	33	1%	3	Northern Pac....	116	7%	6
C. & N. W.....	139	7%	5	Pennsylvania	115	7%	6
St. Paul	119	7%	5⅞	Reading	88	4%	4½
D. & H.........	153	9%	5⅞	Sou. Pac.	82	6%	7¼
D. & R. G., Pfd.	68	5%	7⅜	Union Pac.	123	10%	8⅛
Gt. Northern ...	117	7%	6	Mo. Pac.	65	5%	7⅝
Ill. Cent.	128	7%	5⅜	Ont. & W.	31	2%	6⅝

This is by far the highest rate of return on stocks since 1893. That was a panic year, and while rates on this class of stocks were higher at one time in the period and while the value of money is

greater now, there are other things to be considered. At present the stability of the shares considered as measured by fixed charges, surplus, etc., is at least three times greater than in 1893. Dividend reductions now would not approach the falling off in the year 1894. This is very important. I have frequently used comparisons of income return in the past as a bearish argument on stocks, but it is not necessary to say that arguments based on returns of 4% or 5% are not applicable when the rate is 6.2%.

While the events of the week have filled everyone with alarm, we may, after looking over the entire situation, reduce the concrete events to two items—the Pope Manufacturing Company failure and the advance in the discount rate by the Bank of England. The Pope affair in itself is not serious, but, as is always the case, it frightened people and stocks were slaughtered in anticipation of more failures. No one seemed to reason that the withholding of more credits from shaky institutions is for the purpose of preventing future trouble in other directions. Even if other failures do occur, they have already been discounted; it is not probable they will be discounted twice. I think other weak spots will be developed from time to time and they may cause flurries in the market, but on these flurries stocks should be purchased.

The Technical Situation.

There can be no question of a great improvement in the technical situation this week. The decline was so rapid and material that weak accounts were swept away and these holdings passed into the hands of people who buy only at low prices with ample margins. In fact, there is no other class of buyers who can or do buy under such circumstances.

Conclusion.

I find myself as much without company in my more cheerful views as has been the case for the last six months while on the other side, but I am satisfied that selling stocks now is the rankest folly and that purchases on all breaks are bound to yield profits. Such stocks as Atchison, L. & N., Chicago & Northwestern, Norfolk & Western and Pennsylvania will prove safe purchases and, in fact, the whole market should improve. It is well now, as always, to provide ample margins and refuse to be frightened by canards and raids. There will be plenty of the former and possibly a few of the latter. My own position is now on the bull side as firmly as it has heretofore been on the bear side.

WEEKLY LETTER.

August 24, 1907.

While the stock market for the week has been rather featureless, the tone has been better and there have been marked evidences of accumulation of good stocks by very large interests. This buying has been designated as "support" by most of the writers who have

grown accustomed to looking on any purchases from high quarters as being defensive measures, pure and simple—desperate expedients to save the market from ruin and demoralization. It seems to be impossible for these sages to appreciate the fact that prices might eventually reach a level low enough to warrant purchases on the merits of the goods.

While the buying referred to above has necessarily acted as a supporting factor, I am satisfied that it was not support, at least not all of it. I feel sure that men of importance who have recently purchased stocks have endeavored to stop advances when they occurred and have increased their lines on declines. This does not at all accord with the theory of necessitous support. When certain interests buy stocks merely to prevent panic, their chief concern is to see an advance and a change of sentiment which will permit them to sell the stocks which they purchased when they did not want them.

We have arrived at a period when evils which were only matters of theory or conjecture a few months ago, are now bald and glaring facts, and with this elimination of mystery comes the greatest error of the speculator. A few months ago he could see nothing but good and in many cases bitterly resented words of caution or pessimism. "Business is excellent," he said. "Everything is moving smoothly, why should we sell stocks?" And now, seeing nothing but evil, he replies to cheerful words in this wise: "Business is bad, contraction and curtailment is the order of the day. Why should we buy stocks?"

The answer to all this is contained in one word—"previousness." All these bad things were foreseen and recognized by students and the real makers of stock prices six months ago. Now that they are apparent they are merely a mass of idle words, so far as basing future prices is concerned. These certainties that are being tabulated in figures and vociferated in type have lost all possible *speculative* value and are to be cast aside like so much junk. How wholly unreasonable it would be to assume that if prices had declined (as they have) in anticipation of certain adverse happenings, they should continue to decline even more radically when these surmises became history. Wall Street discounts everything but it does not discount things twice.

I am fully aware of the fact that no advance is looked for in any quarter just now. I would like to ask if there is any case on record where the end of a decline was ever recognized.

Admitting that our money situation is bad the world over, that the contraction in business must go still further and that some weak spots still exist, let us give due consideration to the fact that some stocks are very low, low enough to make their current prices cover a multitude of sins.

I have frequently reverted to money conditions and their influence on speculation. It appears that these conditions are now growing worse instead of better. This is true enough, but here again the question of the future appears. Money conditions frequently continue to show badly for a short time after the stock

market begins advancing. In 1893, for example, the stock market began its recovery in June. At that time the percentage of loans to deposits stood around 104% and the percentage of specie to loans about 15%. In August the percentage of loans to deposits stood at the record figures of 109% and specie to loans 13%, but the stock market kept on going up until October, at which latter date loans to deposits had dropped to 94% and specie to loans had risen to 24%.

Similarly in 1903 the stock market started upward in September. At that time loans to deposits were about 101% and specie to loans 19%. As the upward market progressed loans to deposits rose to 104½% and specie to loans dropped to 17% in November. Then began the improvement which left the two items 91% and 25% respectively in August, 1904.

The above views are given to draw attention to the futility of trying to judge the beginning of an upturn by present conditions or by any general recognition of better things. It may appear that I am unqualifiedly bullish just at present, but let me hasten to correct this idea. I feel that there is enough of good and enough to hope for in the situation to warrant higher prices. Whether the market will be sustained after an advance and whether it will move gradually back to high prices I am not yet prepared to predict. Judgment on this head must be reserved until we can determine whether or not improvement in money conditions will follow the stringency caused by the crop movement needs and until we can determine whether the precautions now being taken by banks and other financial institutions will prevent serious trouble. These and many other things are now unknown quantities and can only be closely watched. If, in the course of the next few months, no relaxation appears, we may well grow perturbed again and look for more liquidation. I do not mean to say that in that period we may expect general business to resume the activity displayed in the last few years or money to become a drug. No such thing is probable; no such thing is even possible, but we must keep steadily in mind the fact that stocks have gone to very low figures, discounting many evils which have occurred and, I think, discounting some evils that never did and never will occur. If improvement of a negative character is to be reasonably expected, that is to say, if danger no longer threatens, our stock prices will begin recovering. We have short crops and we have discounted that feature, we have tight money and we have discounted that feature, and if we get no further damage to crops and no more severe stringency in money, our troubles are, for the time, over.

The Technical Situation.

Whenever a stock market starts upward after a great decline, every early advance is attributed to "short covering." It seems to be the idea that no one would be so fool-hardy as to buy stocks when they were cheap except the bears. As we are hearing a great deal of this just now I will call attention to the fact that in nine

cases out of ten there is more short selling than short covering in the initial stages of an advance. The bear traders are strong and confident and they follow the natural method of selling on rallies, and it is only when the advance goes on and on that they begin to get nervous. A "bear panic" always occurs after and near the culmination of an advance, not in the first stages of improvement.

An examination of accounts of a half dozen houses catering to a public and semi-professional clientele this week shows that a great many traders have accepted losses on the long side and, in many instances, began selling short. The floating long interest has been materially reduced both directly through liquidation and indirectly by offsetting transactions on the short side.

The technical situation is better than it has been for a long time.

Conclusion.

It is my opinion that the very best method of operation at present is to buy good stocks whenever they are weak and average on the declines. There are many stocks which are showing large income returns and a strong margin of safety to fortify dividends, which can be confidently purchased on breaks for either speculation or investment. Among these I like Pennsylvania, Atchison, Baltimore & Ohio, Norfolk & Western, Chicago & Northwestern and Louisville & Nashville particularly well.

To the arguments already presented, I wish to add one other—the market is too low to make short selling safe. Even if we are to have a general decline of ten points more, it is infinitely wiser to await that decline and buy on it or to average transactions down, than to persist in trying to take the last few points of a market which has already suffered severely. It is that form of greed that usually puts the bear operator out of business in the long run. They never see the bottom.

Whatever the long future may hold, it is my opinion that for the present purchases on declines are decidedly the best policy.

WEEKLY LETTER.

August 31, 1907.

The prophets who never change their minds in view of changed conditions and prices are now pointing out that the reduction of dividends in one or two quarters represents merely the advance guard of a long line of reductions. Unfortunately, these gentlemen fail to give their reasons for this view. They simply say, "One railroad has reduced its dividend; ergo, all railroads will do likewise." While such logic as this is hardly worth answering, the matter has been bruited about so much as a bear argument that it may be well to investigate a little and try to discover what may be expected in the event of a period of recession in general business.

For the sake of analogy we may best turn back to 1893 and 1903, our last two periods of depression.

In the severe panic of 1893 and the long period of stagnation which followed, we find that dividends suffered from the highest to the lowest points a little over $15,000,000. Thus:

Total Dividends on Railroad Securities in 1893, 1894 and 1895.

Year.	Dividends.	Surplus for Year.
1893	$100,929,885	$8,116,745
1894	95,515,226	45,851,294
1895	85,287,543	29,845,241

Dividend disbursements have never fallen below those of 1895 since that date. It will be observed that surplus was materially increased after 1893, an important factor.

From 1903 to 1905 there was no aggregate curtailment of dividends on railroad stocks. The figures are as follows:

Total Dividends on Railroad Securities 1903-1904-1905.

Year.	Dividends.	Surplus for Year.
1903	$196,728,176	$99,227,469
1904	221,941,049	56,739,321
1905	237,964,482	89,043,490

In order to establish the fact that a general reduction in dividends is not to be expected because one or two unfortunate or badly managed corporations are forced to reduce or discontinue payments, let us examine the dividend reductions in railroad stocks in the two periods already consulted. The following table shows the reductions made in a total of 120 railroad securities:

Reductions From 1893 to 1895.

Security.	Paid in 1893.	Paid in 1894.	Paid in 1895.
Canada Southern	3%	3%	2½%
Canadian Pacific	5	5	0
Jersey Central	7	7	5½
C., B. & Q.	5	4¾	4
C., M. & St. P.	4	4	2
Rock Island	4	3½	2
C., H. & D.	5	5	3¾
D. & R. G. Pfd.	2	0	0
Long Island	5	4¼	4
L. & N.	4	0	0
Mich. Cent.	5½	5½	4
N. Y. Cent.	5	5	4¼
N. Y., N. H. & H.	10	9	8
Terre Haute & Ind.	6	3	0
Lehigh Coal & Nav.	6	4½	4
Lehigh Valley	4	0	0

As against the 16 reductions noted above there were twelve dividend increases.

Reductions from 1903 to 1905.

Security.	Paid in 1903.	Paid in 1904.	Paid in 1905.
Alabama & G. So. Pfd. "A"......	10%	9%	6%
C. G. W. Pfd. "A"	5	2½	0
Chicago, Ind. & L. Com.	3¼	2½	3
C., H. & D. Com.	2	0	0
Col. & So. 1st Pfd.	4	2	0
Des. M. & Ft. Dodge Pfd.	7	5	5
Keokuk & Des M. Pfd.	2	1½	0
L. E. & W. Pfd.	4	3	3
Minn. & St. L. Com.	5	2½	0
Rutland Pfd.	1	0	0

From 1903 to 1905 there were 39 dividend increases as compared with the ten decreases shown above. This fact shows pretty distinctly that reductions in one quarter do not argue comprehensive curtailment.

It is a very unsafe method to figure too much on comparison, and the foregoing statistics are produced merely to show that nothing in history should lead us to believe that a dividend reduction here and there can be considered barometrical. Railroad properties are like individuals, some are unfortunate, some are foolish, and some are dishonest. Periods of depression are the crucial tests of good management and probity. The survival of the fittest.

But another feature should be given attention. In these setbacks in general business, many industrial corporations suffer very seriously. Lack of space forbids my producing tables to show that the stocks of industrial companies were poor properties in the periods considered; but such was the case. There were not very many securities of this class in 1893, but those that did exist did some ground and lofty tumbling. The Distillers and Cattle Feeders' Company, after selling its stock at $70 assessed the holders $20 per share, and the stock of National Cordage Company sold at 146 and met the same fate; an assessment of $20 per share. In 1903 Allis-Chalmers paid 7% on its preferred issue; in 1904 1¾% and in 1905, nothing. American Car & Foundry paid 4% in 1903; 1% in 1904, and nothing in 1905. Cotton Oil Common paid 4% in 1903, 3% in 1904, and 1% in 1905. Steel Foundry Preferred paid 6% in 1903; 2½% in 1904 and nothing in 1905. Republic Iron & Steel Preferred paid 7% in 1903; nothing in 1904 and 1¾% in 1905. United States Steel Common paid 4% in 1903 and nothing in 1904 and 1905, and so on.

Looking to the future, there is a very great difference between 1903 and the present time. The majority of dividend-paying properties are in a much better position to withstand adversity than they were in 1893. Surplus is larger, the physical condition of all properties is much improved; a halt in general business, with the attendant decline in commodity prices, will permit railroads to purchase materials and forward projected extensions under more favorable circumstances. It may also be considered certain that the

elimination of weak spots in the commercial structure and the withdrawal of credit from the expansionists will improve our money conditions.

And here it may be well to point out that the greatest and most important feature of the whole situation is money. It is reasonable to believe that the precautions which have been taken by bankers recently will result in an improvement in money affairs before long, and when that improvement appears we may be certain that it will have a decidedly beneficial effect on security values. There are already some evidences that time money rates have, for the present, reached their zenith and with some gilt-edged securities yielding seven and eight per cent. a sharp readjustment in stock prices would follow a decline in time money rates. That process would be as natural as water seeking its own level. However, on this point we must not be too cock-sure. The matter demands continued vigilance and while the outlook is now for at least a temporary betterment, the future may bring disappointment.

As to probable dividend reactions not yet prophesied publicly, it may be pointed out that one or two leading properties have a bad prospect before them. New York Central is not earning its disbursement, but the deficit will be made up from its other income and no reduction of dividends will take place. St. Paul is not earning 7% on its new stock issue and unless there is a decided improvement in their net earnings, the rate will have to be reduced. The Southern Railway reduction was a foregone conclusion, it was forecast in these advices months ago. The Erie affair is also a matter of history and I may add, in parentheses, that I would not hesitate to pick up some of these Erie dividend warrants. They can be had at 50 or 60 cents on the dollar and pay 4% on par valuation. A few of these in a tin box will prove good property.

The Technical Situation.

I do not think the technical situation has changed materially in the last week. There has been some good buying of high-grade stocks both by insiders and public investors. This buying is of a character which tends to fortify the technical situation more than any other class of purchases, as it results in reducing the floating supply of surplus shares. On the other hand, there is considerable short selling of a bad character, which is also a sustaining element. I consider the technical position of shares better than for some time.

Conclusion.

We are at a period where great care should be exercised in the choice of properties and where a constant watch should be kept on the money situation. These are two very important factors. Personally, I do not hesitate to advise purchases of such stocks as Atchison Common, Pennsylvania, Norfolk & Western, Baltimore & Ohio and Chicago & Northwestern on all declines, but it would

be foolish to assume that a great and sustained bull market is to occur at once. Some very important interests now consider it expedient to depress prices if possible, and to keep them within reasonable limits at all hazards. Of course, the market might get away from them; they are not omnipotent, but everything considered, the probabilities favor numerous declines followed by sharp recoveries. It would appear, therefore, that the best plan of operation for the active speculator would be to buy confidently whenever weakness develops and to accept fair profits. The investor may work on a different theory. He may buy whenever favorable opportunities present themselves, on the simple theory that the dominant evils have been discounted, that stocks are cheap and that there will be plenty of time to abandon his position without loss if future developments warrant such a change.

I find from my correspondence that Union Pacific, Great Northern and Northern Pacific are being made public favorites at present. I do not believe they are the best bargains. There is enough speculation in these shares to make soda-water advances probable in strong markets but the factor of safety is absent. Union Pacific has paid 10% by keeping down its maintenance of way and other charges and it is highly probable that the physical condition of the property has suffered. The dividend rate is too high and should never have been established. Great Northern and Northern Pacific may be injured by a poor spring wheat yield and by sympathy with the unfavorable position of St. Paul. We can look these stocks over later on. There is also a desire to buy Amalgamated Copper. In a recent letter I suggested that this stock was a different proposition at $70 than at $100, even if the dividend was reduced. This is true enough, but for some reason which cannot be analyzed, nine out of ten of my friends settled on this stock to the exclusion of really good shares. The concern is a blind pool of the most pronounced type, and is more of a gamble than an investment. I maintain my opinion that it will go higher, but it is far better to stick to respectable securities. I am sorry I said anything about it.

WEEKLY LETTER.

September 7, 1907.

It is my opinion that we have reached a point where money is the all-important feature. This factor should be given the closest attention. Heretofore other elements have had to do with the shaping of prices, but, in my opinion, all the evils arising from short crops, agitation and litigation and even inflation have been well discounted in the prices of good railroad stocks. Under these circumstances it is probably safe to brush aside all the minor influences as dead issues. I do not mean to infer that the business depression so frequently predicted in these advices has run its course. On the other hand, it has barely begun, but it must be remembered that we cannot discount business depression in stock prices and, when the depression appears, discount it

again. In the last period of a marked falling off in business (1903) our prices for railroad shares reached their lowest figures in September, 1903, and in October, 1904, railroad stocks were 20 points higher. The actual falling off in business came between these two dates.

It will be observed that in my recent advices I have specified railroad stocks. It is my opinion that there is a great difference in the immediate prospects of our two great groups of securities. Business depression means a falling off in commodity prices, and so the producing companies suffer while railroad corporations are enabled to buy necessary material and employ surplus labor to considerable advantage.

It is a common but ill-based idea that all stocks move up or down together in the long swing of speculative extremes. It is true that a day's movement is either to a higher or lower general level, but in these repeated sessions a certain group may move up more materially in the advances and down less materially in the breaks, and the ultimate result is a wide spread. On May 4, 1907, I printed tables showing how this readjustment operated. Taking the leading railroad shares as one group and the leading industrial shares as the other the result was as follows:

RAILROAD STOCKS. Stock.	High in July, 1901	High in July, 1902
Atchison	89⅜	95¾
B. & O.	108¾	112⅛
Can. Pacific	108¼	139¾
St. Paul	177¼	189⅜
Erie	43⅝	39½
L. & N.	111	145⅞
Mo. Pac.	121⅞	119½
Penna.	151¾	161¾
Reading	47	69⅞
Union Pac.	110⅞	110⅝
Average price	102.97	118.41

INDUSTRIAL STOCKS. Stock.	High in July, 1901	High in July, 1902
Amalgamated	124¼	68¾
American Smelting	58	47½
American Sugar	145⅝	134½
Anaconda	48⅞	27
Col. Fuel & Iron	116⅛	102¼
National Lead	23	22¼
Tenn. Coal & Iron	72½	69½
Rubber	21¼	17
U. S. Steel	48⅞	41
U. S. Steel Pfd.	99½	92⅛
Average price	75.80	62.18

Here we find a spread of 29 points from the highest point in July, 1901, to the highest in July, 1902. No better proof could be given as to the necessity for discrimination.

In the remarks made above there is no intention of upholding the past as a safe guide to the future. Speculation founded on mere repetitions is ridiculous, but we may safely assume that parallel *conditions* will bring about similar results.

To return to the question of money. Some time ago the opinion was offered in these advices that if money could be loaned on good security at 7%, stocks which yield 6% on their market price must fall. That is what came to pass, but now, if time money can be secured at 6% and certain good stocks are yielding 7% on the market price, the shoe is on the other foot. To make this more clear, let us take Atchison Common as an example. At $85 per share the stock yields 7.06%. If we can take these same shares to the bank and borrow money on them at 6%, something is out of alignment and it won't stay out of alignment long. True, there is a speculative risk. The stock may decline; also it may advance. In order to be perfectly fair, we must eliminate speculation entirely. We may take it for granted that no man would base such an illustration as that given above on any but a good security which could be expected to maintain its dividend.

As things stand now, we are out of gear somewhere. If we are to have lower money we will have higher stock prices. Thus the whole question resolves itself into the question of future rates for time money.

It is my personal opinion that we are justified in expecting easier money, at least for the time being. A number of inquiries made yesterday among prominent borrowers and lenders of money showed considerable difference of opinion on this point. Several brokers who borrow large sums on stock collateral assured me that funds could be had over the first of the year at 6% and in some cases at 5¾%. Others denied this and leaned to the belief that the recent decline in time money was temporary or even fictitious. The majority, however, took the optimistic view and my personal opinion is that they are correct. Nevertheless, I shall consider it vitally necessary to keep a watchful eye on all developments in money and to advise my clients accordingly.

Our principal source of revenue now will be cotton bills. So far as importing money is concerned, we can, of course, look upon cotton as our greatest factor. Last year we sold abroad 8,688.296 bales of cotton, which, reduced to dollars, amounted to $481,277,797. Even with a crop shortage, we may reasonably assume that the difference of almost 3 cents per pound in price will bring us over $500,000,000 this year. Corn will also help, but this is not so important. We export such a small percentage of our tremendous corn crop that high prices represent, to a great extent, the swapping of dollars in our own boundaries.

As it may be of interest to know about how time loans have ranged at this time of the year recently, I will give the rates from

September to the end of the year since 1903. The figures are for the range of six months' money.

Year.	Sept.	Oct.	Nov.	Dec.
1903	6 —5½	6 —4¾	6 —5	5¼—4½
1904	4 —3½	4 —3½	4 —3½	4 —3¼
1905	4½—4	4¾—4½	6 —5	6 —5½
1906	7½—6	6 —5½	6½—6	7 —6½

The present rate is 6%. In making a comparison with 1906 we must, of course, consider the very much lower range of security prices.

The Technical Situation.

I am satisfied that the technical situation is much better than it was a few weeks ago. From a recent examination of brokerage books it appears that there is a much smaller line of marginal commitments for the long account and a great increase in short sales. The short selling centers very largely in Reading and Union Pacific, probably because of the activity of these two stocks. Temporarily, at least, this puts the shares mentioned in a strong speculative position and also reflects a bearish sentiment among the semi-professional get-rich-quick gamblers.

Conclusion.

It is my opinion that it is for the present safe to purchase good railroad stocks on every recession brought about by the failures of weak concerns, the reports of adverse legislation or any of the numerous rumors which are brought out from day to day. Every failure represents the elimination of a weak spot and conservatism on the part of bankers, and by so much the whole structure is strengthened. I would not buy industrial shares. They are speculative property at any time, and particularly so just now. A good many shrewd judges of the market think we are in for a considerable period of backing and filling in prices and, while I do not wholly concur in this view, it is certainly safer to conduct operations on the basis of purchases on declines and profit-taking sales on advances than to get excited and follow the market up. I do not mean to say that short sales are justified on advances. There is a mighty big difference between accepting a profit and putting the money in the bank and getting in a position to be punished in the event of a continued upward movement. I never saw a man who tried to be a cross between a bull and a bear in the same month who didn't get worsted. In a word, we should trade in such a way that if stock prices are no higher on January 1, 1908, than they are to-day we will have made money. It can be done.

I will add a word in regard to Copper (the metal). Several months ago, when I insisted that the price must fall to 18 cents, the idea was hooted at. Now that the price has been established, these same hooters are talking about 10 or 12-cent Copper. No moderation in this game. It is, in my opinion, as unreasonable to talk 10-cent Copper as it was to talk 30-cent Copper. The price may decline somewhat further, temporarily, but Copper is worth about 18 cents a pound and we may safely base our ultimate ideas on that price.

WEEKLY LETTER

September 14, 1907.

The week has been crowded with events and rumors, and while much of the news has been of a satisfactory nature it happens that the bad news is more direct in its application and more immediate in its action, therefore some fright has occurred among the weaker bulls and some exhilaration has been felt by the professional bear element.

The declines, however, have been important only in the industrial shares. The fall in active rails for the fiscal week ending September 12 was 2.39%, while industrials fell off 5.70% in value. Certain stocks in the railroad group showed remarkable powers of resistance.

At the closing figures of September 12, as compared with ten days ago, Atchison is ¼ lower; B. & O. ⅜ lower, and Pennsylvania 1½ higher. I mention these stocks because they are the ones which have been most particularly recommended in these advices. In point of fact, it would be more gratifying and more profitable all around if the good rails would break from their moorings and participate in a sympathetic decline, for such action would permit of the accumulation of shares to great advantage.

The matter of the New York City bond sale has already been discussed, but I will reiterate my opinion that the over-subscription of these bonds demonstrates definitely the fact that there is plenty of capital awaiting investment, provided prices are right. We may feel very sure that the money which was offered in large quantities for these bonds, and rejected because of the heavy over-subscription, will soon seek investment elsewhere. This is simple logic, so simple as to be sniffed at by that large class of traders who are continually searching for something recondite and viewing every demonstration with suspicion; but more people get rich by believing things than by doubting everything.

I do not think people realize fully to what an extent business depression has been discounted in stock prices. Taking the twenty best rails, for example, we find a greater percentage of decline now than since 1900, which. of course, contemplates the business depression of 1903-04. The figures show as follows:

	Low 1900	High 1902	% Rise	Low 1903-4	% Fall	High 1906	% Rise	Low 1907	% Fall
Atchison	18	96	433	54	44	110	104	82	25
B. & O.........	55	115	109	72	37	125	74	87	30
Can. Pac......	85	145	71	109	25	201	84	155	23
C. & O.........	24	57	138	27	53.	65	141	31	52
Erie Com.....	10	45	350	21	53	51	143	18	65
St. Paul......	108	199	84	133	33	199	50	118	41
Chic. & N. W.	150	271	81	153	44	240	57	137	43
Del. & Hud...	106	184	74	149	19	235	58	147	37
Gt. North.....	145	203	40	160	21	348	118	*114	55
Ill. Cent......	110	173	57	125	28	184	47	127	30
L. & Nash....	68	159	134	95	40	156	64	103	34
Mo. Pac......	38	125	229	86	31	106	23	63	41
N. Y. Cent....	125	174	38	112	36	156	39	100	36
North. Pac....	45	...	...	...	...	232	...	113	51
Nor. & West..	22	80	264	53	34	97	83	68	30
Penn.	124	170	37	111	35	147	32	114	22
Reading	15	78	420	37	53	164	343	85	48
South. Pac....	30	81	170	38	53	97	155	70	28
		1901							
Union Pac....	44	133	202	66	50	195	195	120	38
South. Ry.....	11	41	273	16	61	43	169	15	65
Aver. rise % ..	...	...	169	...	...	...	104	...	...
Aver. fall % ..	...	...	...	...	39	...	...	...	40

*44 points allowed for rights.

Forty per cent. is a mighty big decline in values for this class of stocks, even under very bad conditions.

The antics of Amalgamated Copper have aroused much interest in the last three days. Personally, I do not want to extend any advice on this stock at present. Their affairs, mixed and hidden as they are, render opinions pure guess-work. It was plain enough to see a few months ago that the stock was entirely too high, but after a decline of 50% in the stock and 8 cents per pound in the metal the situation is not clear. We may certainly point out the fact that the directors of the company deliberately deceived the public at their last dividend meeting, just as they have always deceived them in the past. At the meeting mentioned the stock was placed on a permanent 8% basis in spite of a certainty that such dividends could not be maintained. There could be but one object in this action—to deceive and mislead unsophisticated people. I feel, however, that, allowing for some temporary fluctuations below that price, 18 cents is about right for the metal. These unreasonable writers and hot-air artists who are telling us

NOTE.—This very interesting tabulation was suggested by Mr. Carl Snyder, author of "American Railways as Investments."

that the uses of Copper are dwindling and that the heavy consumption of the metal for electrification, etc., is a thing of the past, are not worthy of the attention of thinking men. Copper will be employed in the channels for which it is best fitted as certainly as wheat or corn or any other staple. As to the closing of the Butte mines, if the owners of those mines are suffering from overproduction the most reasonable thing they can do is to close them. I also have a suspicion that in this shut-down they intend to kill two birds with one stone. Butte is the stronghold of union labor and a shut-down means an opportunity to deal with the labor unions in a drastic manner.

The money situation remains, in my opinion, the most important factor for consideration. It appears that banks are loaning freely on railroad stocks at 5¾ to 6% for five and six months. It is pointed out, however, that it is extremely difficult to borrow funds for legitimate business purposes. I fear the word "legitimate" is very flexible, and it may also be suggested that the willingness to loan time money on stock collateral argues a belief in the soundness of that security at present prices.

As to the probability of money easing in the near future, we must consult a number of factors. The interior appears to be in a remarkably comfortable position for this time of year. The slowing down of business certainly means more money for New York. There is no diminution in the production of gold and our balance of trade always begins to show large in September.

In this latter regard, it is possible that foreign consumers are pursuing a hand-to-mouth policy and buying deferred options of cotton and cereals at present. That might result in some temporary disappointment, but the matter would adjust itself in time. As the figures showing the fluctuations of the balance of trade at certain seasons may be interesting, I will produce them.

Excess of Exports in Dollars.

Month.	1904.	1905.	1906.	1907.
January	59,455,304	25,254,507	64,081,528	62,710,010
February	29,777,782	3,786,369	37,533,679	36,511,538
March	28,540,540	26,547,241	31,913,130	28,575,058
April	26,358,523	33,465,086	37,601,959	27,897,706
May	9,188,764	31,268,145	25,639,190	8,247,462
June	12,067,631	30,706,241	24,253,912	25,229,415
July	14,029,536	23,417,815	9,100,825	....
August	4,516,013	21,836,957	24,104,453	....
September	50,140,449	33,996,486	35,878,631	....
October	69,750,023	46,928,070	69,224,996	....
November	62,898,485	72,043,607	62,899,342	....
December	48,686,500	98,595,721	56,050,217	....

The Technical Situation.

The technical position in rails remains strong, but there is some weakness in industrial shares. There is a foolish desire on the

part of public speculators to go into industrial stocks because they have declined more than rails. This is all wrong. It was a recognition of this prejudice in favor of Amalgamated which moved me to quickly withdraw all favorable opinions in regard to that stock on August 28.

I think, however, that a great many weak accounts have been upset in this group of securities and that any further decline means a decided improvement in the technical situation.

Conclusion.

While I make no pretension to guess the daily or temporary changes in the market at any time, I feel satisfied that the buyers of good rails have nothing to fear and that purchases of this class of securities on breaks is the only safe policy at present. We are now in a period when nothing but bad news and blue talk can be expected, and this has its temporary effect. When the market was at the approximate top in the latter months of 1906, we heard nothing but cheerful news and roseate predictions. I remember that when I took a decidedly bearish stand at the time last named, I was called on to endure considerable criticism and much grumbling, but our patience was amply rewarded. It is human nature to be influenced by surface appearances and things always look different from what they really are in Wall Street. Whether the market goes up or down five points from this level, we are nearing the opportunities of a decade and no amount of pessimism and fabrication should move us from a position which is bound to prove correct before long.

I strongly advise the purchase of good railroad stocks on every decline.

WEEKLY LETTER.

September 21, 1907.

The report of the Comptroller of the Currency showing the condition of 6,244 National banks on the call of August 22, has aroused much discussion among men who are watching money conditions closely at present. The expansion of loans of $379,000,000 as compared with a year ago is rather surprising. There are, as always, two sides to this argument, one—that there has been no loan contraction because of the heavy stock liquidation, and the other, that we are quite as strong now as in September, 1906. It may be pointed out this condition has been more or less accurately shown by our New York bank statements, as the percentage of loans to deposits, as shown by New York banks, stood about 103.75 and specie to loans about 17.60 in September, 1906, as against 104.24 and 18.25 at present.

In my opinion the showing cannot be considered favorable, but, looking at the matter from the viewpoint of the speculator, two points must be considered. They are as follows:

Many observers expect too much of the stock market when it comes to the improvement of money conditions through liquidation. We have a decline of ten points in leading stocks and it is pointed out that values have shrunk say, one billion dollars. But how far has any actual effect been felt? There is no change whatever so far as the certificates held by rich individuals and great estates are concerned. The floating supply passing about from hand to hand among the simon-pure speculators and the contraction of collateral value on hypothecated stocks must be here considered—nothing more. It is impossible to even estimate the proportion of income holdings as compared with the floating surplus, but I will venture to say that if such figures were available they would demonstrate most forcibly the fallacy of accepting these shrinkages of so many billions as a basis for calculation.

The second point is that of previousness in stock prices. I cannot find any record of immediate monetary improvement occurring through stock liquidation. The market declines before the trouble in general business is apparent and by the time the real liquidation in all other lines appears, our stocks have fully discounted the trouble and are on the upward road. There is a remarkable and stubborn confusion of ideas on this subject. People will insist on deducing lower prices for shares because of a depression which has already been discounted.

To make these two points clear let me produce a few figures on credit expansion, using the New York banks as a barometer.

In 1893, the panic year, stocks reached their lowest level in July. Did this great liquidation cure the bad money conditions? Not at all. The percentage of specie to loans on January 1, 1893, was 19% and loans to deposits 93%. But as the stock market steadily declined money conditions grew worse. In July specie had fallen to 15% and loans had risen to 104.75. Even after the stock market had started up, conditions grew worse. Loans stood at 109% and specie at 13% in August, 1903.

In the depression of 1903 the stock market declined over 30 points between January and September. The bottom was reached in the month last named. Did this liquidation ameliorate the money situation? Let us see.

In January, 1903, the percentage of loans to deposits stood at 98% and of specie to loans 18.50. In September (the end of liquidation in stocks) loans to deposits stood 101% and specie to loans 19%. In November the stock market was advancing and loans were 104.75% and specie 17%.

I can find absolutely nothing in history that should lead us to expect an improvement in money conditions coexistent with stock price movements. There is no synchronism here. A study of these money conditions is always valuable, but misuse of the information

obtained is sure to contort the vision. The stock market goes first, and after it, the deluge.

And, pursuing our reasoning, if a decline of forty per cent. in stock values has not improved our expanded credits, will a decline of another twenty points do anything? If there has been severe liquidation in this quarter and the results of this liquidation have been wholly absorbed for the purpose of expanding other credits, must we look on the stock market as a son of Martha—to bear all the burdens—or shall we make the new expansionists foot the bill? The burden of liquidation now lies in other quarters.

There is another feature which is, in my opinion, somewhat misunderstood at present. It is the question of increasing operating expenses. In examining the statistics in this regard I have been considerably surprised myself at the results. We cannot doubt but that operating expenses have been increased in many ways, but well-managed properties have offset this drawback by economies or improvements in other directions. Nine picked properties show as follows:

	Net Earnings.			Percentage of Operating Expenses.		
Road.	June, 1905.	June, 1906.	June, 1907.	June, 1905.	June, 1906.	June, 1907.
Atchison	1.692.809	2,741.096	2,932,614	71.21	59.26	62.67
B. & O.*.........	2,017.926	2,196,859	2,304,588	65.02	66.43	68.22
Can. Pac.........	1,502.933	1,938,050	2,415,106	66.07	64.62	64.57
C. & O.†.........	713,097	905,931	909,710	61.38	58.76	62.57
Lehigh Valley†..	1,079,687	846,639	1,297,728	61.19	64.99	59.69
L. & N.†.........	811,807	961,521	858,874	74.68	74.96	79.50
Mo. Pac.†	1,057,828	1,361,758	1,533.782	69.87	64.42	63.61
Norfolk	886.334	956.651	1,107.572	59.13	61.39	59.74
Penn.	3,597,104	3,970,804	4,402,504	68.47	67.88	68.63

*July. †May.

True, all this is in retrospect and our next reports may show up more unfavorably, but so far as the question at issue is concerned, we must admit that if operating expenses are to increase on the theory of increased cost of labor, etc., this readjustment is of a gradual nature and not the result of an upheaval. Therefore, the evil should appear, in its degree, in the records of the past as well as in the probabilities of the future.

The dividend yield on leading rails is given below. The great basis of comparison is, of course, the yield as compared with present rates for time money. In this comparison it goes without saying that we must give due consideration to the factor of probable increase or shrinkage in principal. This is the speculative equation, and I will give it as my personal view that the opportunities favor the constructive side. In other words, we are much nearer the bottom than the top for the next few months. Such views are, however, always subject to change.

DIVIDEND YIELD AT PRESENT PRICES.

Road.	Per Cent. of Operating Expenses 1906-07.	Per Cent. of Fixed Charges 1906.	Dividend Common.	Yield %
Atchison	63.84	42	6%	6.86
B. & O............	66.72	39	6%	6.67
St. Paul...........	58.60	32	7%	5.83
C. & N. W.	62.70	39	7%	4.83
Gt. Northern.......	50.40	26	7%	5.38
L. & N............	74.58	54	6%	5.45
Mo. Pac.	71.22	60	5%	7.14
N. Y. Cent........	76.41	64	6%	5.71
Norfolk	62.62	37	5%	7.14
Nor. Pac.	50.80	29	7%	5.38
Penna.	70.84	38	7%	5.83
Reading	55.80	45	4%	4.21

This table cannot, of course, be taken too literally. The factor of safety and possible dividend increase or reduction must be consulted. The 12 stocks named are offered for examination because of their comparative high income yield and their position as market favorites.

And in regard to the examination of different stocks I wish to announce that beginning October first I will issue special letters on the reports of leading railroads as they are issued monthly. This is a very important addition to the service. It has been my intention for a long time to do something of the kind, but I thought it best to wait until the new system of accounting went into effect. This new system will make the monthly reports uniform and more clear. I might add that the new method will show an apparent decrease in net profits because of the charging off of depreciation. This may amount to 5 or 10%. I mention this fact so no one will be led into error by making misleading comparisons. I will issue a special letter next week explaining the new system and pointing out wherein it differs from the old.

The Technical Situation.

It is my opinion that the short interest has been increased rather than diminished this week. The idea of attributing every little advance to "short covering" is a mistake. The vulnerable shorts cover nearer the end than the beginning of a movement and the first few points advance almost invariably results in fresh selling. I think the technical position is stronger than last week.

Conclusion.

I find no reason to change my recently expressed opinion that good stocks are at or near the bottom and that the next important movement will be upwards. While I favor the rails, it is probable that any considerable advance will carry the industrials along to some extent, but the factor of safety is greater in the railroad shares.

I will repeat the suggestions given in a recent daily letter as to the best method of trading at present. Buy good stocks on every little dip with two objects in view; first, to accept fair profits of five to ten points in the event of a rapid advance, and, second, to average confidently in the event of a decline. This process is based on the theory that we are much nearer the bottom than the top, but that accidents or raids may always occur to temporarily depress prices. On the other hand, upturns will not be allowed to go too far just at present. A too rapid advance would tighten up money and spoil the whole thing. On the plan suggested above several good turns may be made in the next few weeks.

SPECIAL LETTER.

September 25, 1907.

As the salient points in the new system of accounting as put in force at the beginning of the fiscal year are of interest and importance, I reproduce below a brief explanation of the new methods from the *Wall Street Journal* of September 7. The object of the Interstate Commerce Commission in framing this law was to arrive at a uniform system of accounting and also to insist on absolute maintenance of equipment. It goes without saying that any method which makes for simplicity and strips a railroad report of its intricacy and mystery is a step in the right direction. Other points ni this law will be taken up and discussed in these advices from time to time.

"It is impossible to tell, except very approximately, just to what extent the new accounting methods will affect operating profits in the current fiscal year, as this will depend upon the rate of depreciation each road allows. The rate of depreciation for the present is in the hands of each railroad for itself. After a while it is believed a set rule will be adopted.

"It is safe to say, however, that if a fair depreciation allowance is made the inroads into net profits in 75% to 80% of the cases will amount to from 5% to 10% of net receipts. The following figures will give a rough idea of the decreases which are likely to result in the operating surpluses of certain roads in the current fiscal year, provided:

"1.—That a fair allowance is made for depreciation in every instance.

"2.—That gross business is as heavy as last year.

'Frisco	$1,250,000
Southern Railway	2,250,000
Atchison	1,500,000
Erie	2,000,000
Union Pacific	1,000,000
Rock Island	1,500,000
Great Northern	1,500,000
St. Paul	1,500,000
Pennsylvania	3,000,000

"None of this money is lost. The roads retain it, or its property equivalent. It is unavailable for interest or dividend disbursements, however.

"It should be clearly understood that even the officials themselves cannot tell to just what extent the new accounting methods will affect operating surpluses. The foregoing figures are in some instances the result of official estimates and in other cases estimates made after a careful analysis of maintenance allowances in previous years, the number of equipment owned, business done, etc., etc.

"There are very few roads in the United States but will be affected by this new rule. The foregoing instances are simply taken at random.

"The important points in the new regulations affecting operating results are:

(1) New rules governing "renewals" and "depreciation" accounts for equipment.

(2) Segregation of the "car hire" account from the income account and the establishment of a separate account governing equipment hired, to be called "clearing account."

Concerning the "depreciation" and "renewals" matter, the railroads must set up a "depreciation" account and a "renewals" account governing equipment. They must set up for the year a certain percentage to be allowed for depreciation of equipment and charge off against operating expenses on this depreciation account every month. For the present the rate of depreciation shall rest with each railroad. This is one of the uncertainties of the situation. After the results for the first year are obtained it is likely that depreciation rules will be established.

"In the next place whenever a railroad destroys or condemns any equipment, it must charge operating expenses with the difference between the original cost of such equipment, estimated if not known, less:

(a) Amount previously charged for depreciation up to date of retirement.

(b) Scrap value of salvage or the amount received from sale of equipment retired.

"If a railroad has no depreciation account and destroys to-day equipment costing $1,000,000, the salvage upon which when destroyed is but $40,000, there remains $960,000 that must be provided for. For those roads that have no such depreciation account to provide for equipment condemned, the new methods ought to result in a wholesale charging off to profit and loss surplus where this exists.

"To take a concrete illustration, suppose a railroad has 50,000 cars representing a cost of $700 each. The total investment is $35,000,000. Let 3½% be taken as the annual depreciation and 3½% as the amount of equipment condemned or destroyed per annum, then the operation of the new rules of accounting should work out substantially as follows:

(1) The investment in 50,000 cars at $700 each upon which depreciation must be figured is........................$35,000,000

(2) Taking 3½% as annual depreciation, the charge to operating expenses for "depreciation of freight cars" would be. $1,225,000

(3) Assuming the number of cars condenmed to be also 3½% per annum, there would be destroyed (for which a charge of $1,225,000 is made to operating expenses) 3½% of 50,000 cars or.. 1,750 cars

(4) The cost of these cars condemned at $700 per car would be $1,225,000

(5) Allow salvage of $150 per car on 1,750 cars condemned and there remains to be provided for the difference between cost ($700) and salvage ($150) or $550 per car on 1,750 cars or 962,500

(6) Less depreciation on such 1,750 cars condemned, depreciation for which has been included in item (2), i. e., 3½% on investment of $1,225,000.. 42,875

(7) Net charge to be made to renewal of freight cars. 919,625

(8) Total amount of annual charge to operating expenses for "renewals" and "depreciation" of freight train cars........ 2,144,625

"The figure 3½% may be taken as a fair one to allow for freight car depreciation in ordinary cases. Some railroad managers say it should be 4% and some say even more than this. The allowance here taken is a low one. In the case under consideration a railroad with 50,000 cars representing an average cost of $700 must charge off to operating expenses for depreciation and renewals to the extent of $44 per car per annum. Add to this the cost of repairs, superintendence, etc., etc., and the figure will amount to from $80 to $100."

AUGUST'S EXPORT SHOWING.

There has been so much pessimistic talk in regard to our poor trade balance for August that a few words on this subject are warranted.

Two prominent daily papers in New York have pointed out that our credit balance is dwindling to nothing and have even predicted that September will show the balance on the wrong side of the ledger. There is a bare possibility that this may occur, for no other reasons than that our crops are late this year and that consumers of cotton, corn, etc., abroad are inclined to pursue a hand to mouth policy in buying. Both these drawbacks will right themselves before long.

It should be remembered that July or August are usually comparatively light months and that the fall months show our greatest improvement in surplus exports. I produced figures to show this two weeks ago in anticipation of just such talk as we are getting now, but will produce them again.

EXCESS OF EXPORTS IN DOLLARS.

Month.	1904.	1905.	1906.	1907.
January	59,455,304	25,254,507	64,081,528	62,710,010
February	29,777,782	3,786,369	37,533,679	36,511,538
March	28,540,540	26,547,241	31,913,130	28,575,058

Month.	1904.	1905.	1906.	1907.
April	26,358,523	33,465,086	37,061,959	27,897,706
May	9,188,764	31,268,145	25,639,190	8,247,462
June	12,067,631	30,706,241	24,253,912	25,229,415
July	14,029,536	21,417,815	9,100,825	3,724,269
August	4,516,013	21,836,957	24,104,453	1,833,352
September	50,140,449	33,996,486	35,878,631	....
October	69,750,023	46,928,070	69,224,996	....
November	62,898,485	72,043,607	62,899,342	....
December	48,686,500	98,595,721	56,050,217	....

The total of our balance of trade for the first eight months of 1903-'04-'05-'06 and '07 has been as follows:

	Exports.	Imports.	Excess exp.
1907	$1,196,625,415	$1,001,803,305	$194,822,110
1906	1,099,337,470	845,648,794	253,688,676
1905	966,567,559	770,285,198	196,282,361
1904	851,203,457	667,269,364	183,934,093
1903	878,911,631	676,981,504	201,930,037

I do not believe and never have believed that the prosperity or wealth of a nation can be gauged by its trading balance, but for the sake of argument we may admit that the above figures are unsatisfactory and shows that the trouble arises, not from a falling off in total exports, but from an increase in imports. Possibly we have been spendthrifts. We export cotton and corn and other necessities and we import wines and silks. This view is borne out by the affairs of 1893, in which year we were actually a debit nation in merchandise to the extent of about $19,000,000. But we learned the lesson of extravagance and in 1894 our exports exceeded our imports by $237,000,000. Similarly in 1903 our balance fell off and rapidly rose in the following years. Probably we have overplayed ourselves a little in the flush of prosperity, but that may be cured if the source of supply holds up. If a man who receives a salary of $500 a month goes on a jamboree and spends $400 of his month's salary he will make a bad showing for that particular month and perhaps for a month or two afterwards, but if his experiences bring wisdom, it's all right. His source of supply is unaffected. It would be a very different matter if he went on no spree, but had his salary cut. Our salary is all right, so far as exports go.

I have touched on this matter because it appears to me that many writers, either through ignorance or design are contorting current news. They did it with the comptroller's report; they did it with the August trade showing, and in a week or two they will begin to howl about the falling off in the showing of the Bank of England, in spite of the fact that we know right now that there will be a big slump in that quarter in the next two weeks—there always is at this period. I like to recognize all important features and measure their bearing on the situation, but I don't like to be buncoed.

And, as has been frequently pointed out in these letters, whatever may come, the stock market paid its obligations by a decline of 40% in prices. The bills are receipted, we won't have to pay twice.

WEEKLY LETTER.

September 28, 1907.

The questions which are of greatest interest to the speculator at present are:

1—How long may dullness be expected to continue in a period of stagnation like that of the past week?

2—What is to be expected of stocks in such a period? and

3—What is the best method of trading under such circumstances?

There are two methods of getting at the truth in replying to these questions—by induction and by deduction. Induction, standing alone, would be worse than useless; this is the system employed by the "chart-traders" who depend entirely on repetitions, some of which appear as per schedule and some of which do not. It is my opinion that the history of past movements may be intelligently employed to teach what may be expected under certain circumstances but we must certainly go into the future as well as the past and ascertain what changes have occurred in methods, conditions, etc. In fact, if we were to be limited in our calculations to one of two methods—analogy or analysis, we would certainly be safer with the latter. That is to say, if we could find out the earning capacity of a stock, the amount of its assets, etc., but be denied all knowledge of its past performances, we would be better off than if we knew all about its history but could not figure on its future.

I dwell on this feature because so many people insist on making a machine of the stock market and ignoring the deductive end. No money was ever made in any business except by foresightedness, and this is particularly true of speculation. The word "speculation" itself explains this truth. We may make use of the past by ascertaining what happened under certain circumstances, why it happened and whether the conditions which caused it to happen are at present operative, but if we try to follow these charts on any other basis we will get into a hole. They look like forked lightning and that's what they are.

The first two questions asked at the opening of this letter may be answered briefly by analogy as follows:

In our last period of depression (1903), the recovery asserted itself slowly. Railroad shares fell between January, 1903, and September of that year from an average price of 121.28 to an average price of 88.80 (32.48 points). Between September, 1903, and January 1, 1904, there was a creeping advance of about ten points; then, until March we witnessed a market which swung back and forth in a narrow range but which never again reached the low figures of September, 1903. The extreme average movement in this period of inanition was 8.47 points. It will, of course, be understood that these

average movements represented two or three points in some active shares and as much as twenty points in others. Then the real advance began. After March the market moved to higher levels, thus:

Lowest in March, 1904—91.31, advanced in April to 97.58, declined in May to 93.55; advanced in June to 96.05; in July to 100; in August to 105; in September to 107.72; in October to 117.50; in November declined to 112, and in January, 1905, advanced to 118.

These are only the principal changes, the market was, of course, swinging back and forth continually. The narrow range in the early part of the movement represented accumulation, and accumulation takes time. Everything looked pretty blue between September, 1903, and September, 1904—it was our real period of business depression, but meanwhile railroad stocks were gradually advancing. So far we may reconcile the affairs of to-day with those of the period consulted. We find now, as then, that a good many prophets who were heralding prosperity from the housetops a few months ago are pulling a long face. This is reasonable enough—people always talk up the property they want to sell and talk down the property they want to buy.

There is one difference between 1903-04, and the present day. In the former period, Industrial stocks were a sort of new wrinkle. They were immensely popular and immensely inflated. There were many bubbles to be pricked and the decline in industrial securities had a depressing effect in two ways; by sympathetic market action and by embarrassing holders who were interested in both classes of securities. This same influence exists to-day, but in a far lesser degree than in 1903. Not only are the industrial enterprises which were new and untried in 1903, on a more substantial basis, but they are no longer public favorites, and in addition to this, the liquidation in this particular class of stocks has been fairly complete. I do not believe industrial stocks will act as a deterrent to advances in rails to any such extent as they did in 1903 and 1904.

The period of stagnation in 1904 was from January 6 to March 14, a little over two months. Of course, we cannot consider this as at all a safe guide to the present state of affairs and it would be wholly ridiculous to try to parallel the exact months of January, February and March. If we figure that after a great decline such as has recently occurred two or three months of narrow markets may be expected, we are not far from the end of our dull period. The extreme range in rails since July 1 has been only about 10 points and the net change only about 4 points.

There are several things in the action of the present market which leads to the belief that accumulation is going on steadily in good stocks. Most marked of these indications is lack of cheerful news. Blue talk and general pessimism is the invariable accompaniment of the approximate bottom of a market, exactly as high hopes and general optimism marks the end of an advance. The blueness at present is rather vague in character, but it has its effect. Money conditions are satisfactory for this time of year. The crop situation has been worked to a frazzle and, finding no other weapons at hand,

the bears are forced to resort to rumors of failures or a general statement that we are going to the demnition bow-wows for reasons as yet not pointed out, or at least not established.

As to the best methods of trading under present conditions, I think we should operate entirely on the theory that we are near the bottom of the market and buy stocks on every break. We may render this plan particularly sound by choosing for our purchases good dividend-paying railroad stocks. I think under present circumstances the scale order is the very best method of accumulating stocks. The greatest merit possessed by this system is that it permits of a fixed method of accumulation, but if the method is employed it should be rigidly adhered to—otherwise it is worse than useless. I have seen hundreds of men start picking up shares by this method and hurriedly cancel their orders when the market declined sharply. These individuals usually give as their excuse that the market looks weak. Of course, this is laughable, the market always looks weak when it is going down and how in the world can we accumulate stocks on the principle of averaging unless the market declines? That is exactly what is wanted.

No one could realize more fully than I do how exasperating a market such as we have at present is to traders. They are the most impatient class on earth and they want to see something doing every day, but the matter cannot be forced, and this spirit of doubt and impatience is the very worst factor for the ordinary trader at such stages of the market as we are now experiencing. The market is built at the top with the idea of exciting people and inducing them to buy, and at the bottom they are tired out and discouraged. This must be overcome if we are to make any money.

There is one more point to which I would call attention. It is frequently the case that every effort is made just before a pronounced upward movement to frighten weak holders out of stocks and also create a short interest. The market of the last few days makes me think that something of this kind is now going on and that a radical and wholly unlooked-for recovery may occur at any time. It is an old trick and generally a successful one.

The Technical Situation.

I think the technical situation has been greatly strengthened in the last few days. The short interest has been increased materially and there is little weak stock on the brokers' books. There is a particularly vulnerable short interest in Amalgamated and I will not be surprised to see a demonstration against the bears in this quarter at any time. The stock is only a gamble, however, I don't want to give any advice on it.

Conditions at present are such as to warrant the accepting of fair profits for the time being. While the tendency will soon be upward and will probably so continue for a long time, there will be many swings back and forth as money is released by liquidation in general business. It will not be long now until our percentage of

loans to deposits will begin to fall and the percentage of specie to loans will begin to rise, and as this readjustment goes on money so released will gradually find its way into the cheapest things on earth—good dividend-paying stocks. While no rule of thumb can be given as to how much profit to accept, I shall attempt to offer general advice as to when I expect a reaction and an opinion as to its probable extent. This view will necessarily be founded largely on technical conditions and is largely a matter of guesswork so far as the exact turning points are concerned, but I hope to avoid missing the mark very far. For the present I can only say that purchases should be confidently made at this level and averaged in the event of further setbacks.

WEEKLY LETTER.

October 5, 1907.

The movement of stock prices during September was limited to an unusually narrow range and the net changes were unimportant. It is, however, interesting to note the stability of railroad share prices as compared with industrials and also the variation in the individual groups. These features may be best illustrated by a table of comparisons.

RAILROAD STOCKS.

Stock.	Price Sept. 2.	Price Oct. 1.	Adv.	Dec.
Atchison	86½	86½	...	...
B. & O.	90½	89⅜	...	1⅛
Can. Pac.	165	165⅞	⅞	...
C. & O.	33¾	33¼	...	½
C., M. & St. P.	121	119½	...	1½
C. & N. W.	144	144¼	¼	...
Erie	20¾	20	...	¾
Gt. Northern	124¼	128¼	4	...
L. & N.	108	106	...	2
Mo. Pac.	68½	67½	...	1
N. Y. C.	104¼	102½	...	1¾
Nor. Pac.	121½	129⅜	7⅞	...
Penna.	118⅛	120⅜	2¼	...
Reading	94⅞	93¾	...	1⅛
So. Pac.	84⅛	83¾	...	⅜
Union Pac.	127¾	128⅜	⅝	...

Average advance in points .36.

INDUSTRIALS.

Stock.	Price Sept. 2.	Price Oct. 1.	Adv.	Dec.
Amalgamated	72¼	60	...	12¼
Am. Car & Foundry	39½	37	...	2½
Am. Loco.	52⅜	51½	...	⅞
Smelters	97⅜	87½	...	9⅞
Sugar	113⅛	109⅞	...	3¼

Stock.	Price Sept. 2.	Price Oct. 1.	Adv.	Dec.
Anaconda	46¼	39¼	...	7
Col. Fuel	24½	19¼	...	5¼
Nat. Lead	50¾	48	...	2¾
Pressed Steel Car	27⅝	26⅛	...	1½
Republic I. & S.	20¼	20½	¼	...
U. S. Steel	31¾	27⅜	...	4⅜

Average decline in points, 4.49.

Thus in a single month the prices of rails and industrials have spread apart 5 points in favor of the rails. In this regard I wish to call attention to my letter of May 4, 1907, in which I produced tables to show that industrial stocks and rails spread 29 points prior to the business depression of 1903. In this letter I said:

"Precedent shows that in a period of general depression industrial stocks suffer about 33% more than rails. That is to say, in the high and low prices covering a long period industrial securities should show a distinctly greater pro-rata of decline.

"It is my contention that aside from what is shown by precedent, we are now facing a situation which will lower the prices of industrial stocks materially. We hear a great deal about the excellent Iron and Steel markets and the large orders booked ahead. We have heard all this before. Even after the real trouble begins, business in the metals will continue good for a time. Orders are booked before the coming depression is apparent, and projected extensions are carried on voluntarily or through necessity even after the setback arrives. The price of the common stock of the United States Steel Company does not advance and although the Company is said to be earning anywhere from 15 to 30% on the junior issue, they do not increase their meagre dividend of 2% per annum. Why—because they know full well there is to be a recession.

"Also we hear a great deal about Copper (the metal) and prices are maintained or bid violently upward. Amalgamated goes up a point or two under extreme manipulation and the directors refuse to untie the string they have on their 'and one half extra' dividend. Why?—same reason."

It will be understood that I am not rehashing this matter in a spirit of "I told you so," but merely to assist in arriving at present conditions. In order to figure intelligently on the state of affairs now, we cannot accept merely the five point spread of September but must go back to the recent high prices of both rails and industrials and see what has happened. Thus:

RAILS, HIGH IN 1906, AND PRESENT PRICES.

Stock.	High 1906.	Oct. 1, 1907.	Dec.
Atchison	110½	86½	24
B. & O.	125⅛	89⅜	35¾
Can. Pac.	201½	165⅞	35⅝
C. & O.	65⅝	33¼	32⅜

Stock.	High 1906.	Oct. 1, 1907.	Dec.
C., M. & St. P.	199⅝	119½	80⅛
Erie	50⅞	20	30⅞
L. & N.	130	106	24
Mo. Pac.	106¾	67½	39¼
N. Y. Central	156¼	102½	53¾
Penna.	147½	120⅜	27⅛
Reading	164	93¾	70¼
So. Pac.	97½	83¾	13¾
Union Pac.	195⅜	128⅜	67

Average decline in points, 41.07.

INDUSTRIALS.

Stock.	High 1906.	Oct. 1, 1907.	Dec.
Amalgamated	118¼	60	58¼
Am. Car & Foundry	47½	37	10½
Am. Loco.	78½	51½	27
Smelters	174	87½	86½
Sugar	157	109⅞	47⅛
Anaconda	75	39¼	35¾
Col. Fuel	83¼	19¼	64
Nat. Lead	95⅜	48	47⅜
Pressed Steel Car	64⅝	26⅛	38½
Republic I. & S.	41¾	20½	21¼
U. S. Steel	50¼	27⅜	22⅞

Average decline in points, 41.74.

In the table of Rails I have eliminated such stocks as would create a false showing through rights, etc.

The decline in points, while interesting, is not sufficient for our analysis. It will be necessary to consult percentages, as rails have a generally higher range than the shares of producing corporations. Figured by percentages the matter shows as follows:

DECLINE FROM HIGH OF 1906 TO DATE.

Percentage of decline in rails....................	30.50%
Percentage of decline in industrials..............	46.58%
Excess decline in industrials	34.50%

Now we have reached our logical conclusion. If the calculations offered in the letter of May 4 are reasonably correct, i. e.: if industrials should, in anticipation of business depression, suffer approximately 33% more than rails, we have already witnessed such a readjustment. True, this kind of figuring might be dangerous, if conditions affecting the two groups were changed materially, but I do not think such is the case. And whatever change has occurred in fundamentals favors the industrials. My reasons for this last statement I will be compelled to touch upon in a future letter, when more space is at my disposal.

In view of this readjustment, therefore, I feel safe in withdrawing recent restrictions against the industrial group. I still prefer the rails because of the factor of safety, and it goes without saying that great discrimination is necessary in choosing industrial stocks.

There is another point. In examining the above tables one is liable to be misled into thinking that stocks which have declined the most should offer the greatest opportunities. This is one of the most mischievous errors in the speculative world. The stocks which show the *smallest* decline are, in most cases, the safest. It is the survival of the fittest.

The Technical Situation.

An examination of the technical situation this week shows a very satisfactory state of affairs. There is no pressing liquidation and a steady absorption of stocks in small lots whenever they are offered. While I do not find any heavy individual buying in large blocks, a number of people who are patient and who make money speculating, are picking up bargains whenever they are offered. This is all right. The whoop-la markets where stocks are bid up on thousand-share blocks always represent poor buying except in cases where manipulators are matching orders. And it may be further pointed out that we don't want any perpendicular advance just now. Such a movement would cut our opportunities in half and ruin the technical situation. If we are to make any money on a safe basis we must get into a state of mind to appreciate this truth. Patience is as necessary as money in this game.

Conclusion.

So far as I am able to determine, there is not one legitimate bear factor in the market which has not been fully discounted in stock prices. We are going to have some further falling off in certain lines of general business; railroad net earnings will show some declines; there is some shortage in our crops and money conditions are strained. All this was foreseen six months ago and promptly allowed for in prices of shares. The question is not of the present, but of the future and the future promises well. We have, it is true, narrowly escaped a panic, but we have escaped it, and the next important movement in stocks will be upward. The factors which the bear crowd are using as bludgeons now are entirely impotent for present evil. What has not been discounted is mere foolishness. Wall Street is, of course, filled with bugs and goblins. It always is at the end of a decline.

I continue to recommend purchases of good stocks on all declines. In the rails I like particularly Atchison, Pennsylvania, Southern Pacific, B. & O. and L. & N. Of the cheap rails Chesapeake & Ohio is in the most favorable position. In the industrial

group Smelters and Republic Iron & Steel are cheap. Amalgamated is probably too low now, but it is a stock which I cannot investigate intelligently and, therefore, I offer no basic advice.

For the sake of a clear understanding, I want to inject a personal word here. A number of subscribers have recently expressed a desire for tips on daily or weekly changes; a few others are dissatisfied with advice which is not followed by immediate movements in a market which does not move. I have taken pains to state at all times that I have no "tips" for sale. It is my method to treat speculation as a *business* and as a business which will show us a fair profit at the end of each year. That is the only possible way to make money in this line, and the man who expects to get rich quick is chasing an *ignis fatuus*. The reasonable method is the only one that brings results—I know, I've tried them all. Therefore, while I naturally want to keep my clients, I will suggest to those who are looking for daily results that I have nothing to offer now and can promise nothing in the future, and, furthermore, I don't know anyone who can help them out. It is surprising, but true, that when my investigations caused me in February, 1907, to take a decided stand for lower prices, I met with the same trouble. People actually succeeded in losing money selling stocks in the face of a great decline.

WEEKLY LETTER.

October 12, 1907.

On July 26, 1893, railroad stocks reached their low points for that year—the average price of rails was about 43½. From that date to September 4, they steadily advanced to 63 with only one important break which occurred in November, 1894, stocks declining an average of 4 points between November 10 and November 30.

In 1903, railroad stocks touched the low average price on September 28, from which level the important movements were as follows:

From September 28, 1903, to October 27, 1903, advanced 4 points.
From October 27 to November 12, declined 3 points.
From November 12 to December 29, advanced 9 points.
From December 29 to January 6 (1904), declined 3½ points.
From January 6 to January 23, advanced 4 points.
From January 23 to March 14, declined 8 points.
From March 14 to April 11, advanced 6 points.
From April 11 to May 16, declined 4 points.
From May 16 to July 19, advanced 9 points.
From July 19 to July 26, declined 2 points.
From July 26 to December 3, advanced 20 points.

I produce these figures for two reasons: to show that a material recovery takes time, and because I believe we are to witness a movement of this character in the near future. I do not mean to say that I expect stocks to parallel the fluctuations of 1903. That would be

mere chart-playing; but the influences which are now operative are so much like those of 1903 that we may look for a reasonable duplication of the events of that year in future prices.

In examining the parallelism between the affairs of 1903 and those of to-day, we should keep one point steadily in mind: that the general business depression of that period appeared after stocks had reached their low level. Our first signs of stagnation actually appeared in September, 1903, the month which marked the low prices of railroad shares. This was also true of 1893 and of every other great decline in a century. It is important that this fact should be appreciated so we will not allow the falling off in certain mercantile lines, which is sure to come, to influence us into sacrificing holdings or neglecting opportunities. It is invariably the case that the stock market runs ahead of events, but it is also invariably the case that a majority of public investors and speculators cannot see this truth and are governed in their commitments by what lies directly under their noses. I recall the fact that in the last two months of 1903 I tried my best to get my friends to buy the Steel stocks, both common and preferred, and that my efforts brought me more ridicule than customers. It is a fact that after Steel preferred sold below 50 and reacted to 60, every brokerage house in the United States had short sales in that stock on their books.

The greatest fundamental principle which saved us from a panic in 1903 was the increase in the world's gold output. But for this factor we would certainly have reaped a whirlwind, and right here to-day, we have that same sustaining power bulking large on the horizon. The man who overlooks the power of this factor is in danger. He is eliminating from his calculations the very root of the financial structure. The figures on gold for twenty years, in dollars, are as follows:

1887	105,775,000
1888	110,197,000
1889	123,489,000
1890	118,848,000
1891	130,650,000
1892	146,297,000
1893	157,494,100
1894	181,175,000
1895	199,304,000
1896	202,251,000
1897	236,073,000
1898	286,879,000
1899	306,724,000
1900	254,556,000
1901	262,493,000
1902	296,737,000
1903	327,702,000
1904	347,087,300
1905	376,289,000
1906	405,000,000

And in 1907 there is no slackening of this ratio of increase. The Transvaal is producing now at the rate of 527,875 fine ounces per month as against 482,450 ounces in 1906; 408,093 ounces in 1905 and only 300,000 ounces in 1899. The total output of gold, aside from what is used in the arts, is now over $1,000,000 per day and, as Mr. Ingalls pointed out in his recent address at Atlantic City, this $1,000,000 per day is going into the currency of the world.

Next in importance is money. There can be no doubt but that rates of interest will remain high for an indefinite period, but if we can borrow money at 6% on certain securities that yield 7% or more, these securities are cheap so far as money is concerned. A few months ago I insisted that stocks which were yielding only 4 and 5% while money could be loaned at 7% must fall. They have done so, and as is always the case in speculative shares they have overleaped themselves. The same velocity which carried them too high has now carried them too low. Money will not be tight for long. Before six months have passed there will be a plethora of loanable funds.

There is also the question of dividends. A great many people look at the declining prices and argue backward to probable dividend reductions. There is nothing in this. The stability of dividends is not a matter of conjecture. We have the figures. Aside from one or two properties like Southern Railway and New York Central, there is plenty of dividend money.

The crop situation is also important. We know we are going to have short crops. We also know that our exportable surplus is to be sold at high prices. So far as the effect of this shortage on the earning capacity of common carriers is concerned, I will point to the fact that all the railroads are bemoaning the lack of facilities to move freight. And right here we touch another point and a vital one. The grumbling magnates who control railroad affairs (some of them have good cause to grumble, by the way) are scaring people to death by saying they will build no more railroads. But this is not a bear argument on present security issues. It means, in fact, larger returns so far as present income is concerned. True, it would be a calamity if we could not provide facilities to take care of our growing country, but we *will* provide them all right; and to depreciate outstanding issues because there is a temporary halt in extensions is about as reasonable as to figure that a grocery store in a certain thriving neighborhood would go to pieces because of too many customers.

And against these main fundamentals, all of which have been amply discounted so far as evil is concerned, what have we to lay in the other scale? Nothing but fright; ghosts; figments of the imagination; unfounded premonitions of coming evil and above all things, the potent efforts of "big men" to shake people out of holdings at the bottom. There is not one good, sound, logical bear factor in the situation to-day which has not been over-discounted.

If the emphasis I place on my optimistic views just now represented the opinions of a chronic bull, the emphasis would be strained

and the opinions worthless, but after a long siege for lower prices, I am just as much convinced now that prices are too low as I was six months ago that prices were too high. I do not pretend to guess the exact changes. I never could gauge a market within five points of the top or bottom and I don't know anyone who can; but all we need to know is what the basic situation is and the genuine influences will assert themselves as certainly as the disturbed needle of a compass will finally point north.

The Technical Situation.

The technical situation is better than a week ago. There has, it is true, been some spilling out of weak-margined shares and a little liquidation by people who are easily frightened. There was also a considerable long interest in the market on the "two point stop" theory and this has been pretty well cleaned out. On the other hand, the bears have grown very cocky and short selling has increased materially in the last few days. Most of this selling is based purely on market appearances and the blue feeling which is so prevalent just now. Sentiment of this character frequently undergoes a complete reversal in the course of a few hours. Every short sale made now is a sustaining factor. I do not consider an oversold condition of the market as of any basic importance, but it will act as a check on declines until genuine conditions compel recognition.

Conclusion.

This is a period where stocks should be purchased confidently. The next important move will be upwards. I do not mean to say that the man who plunges on a two or three point margin is in no danger—such operators are always in danger and they wind up every year with a net loss, regardless of the general trend of prices. But the man who buys good stocks now may be perfectly sure of the ultimate outcome. Everything considered, stocks are cheaper now than for over twenty years. In the rails I like Atchison and Pennsylvania particularly well. Atchison is earning 15% on its common stock, and during the last ten years has put $110,000,000 into improvements while paying out only $75,000,000 in dividends. Pennsylvania borrowed money when money was comparatively easy and has funds on hand at present. Also its wonderful terminal facilities will soon begin to bear fruit. In the cheaper rails I like Chesapeake & Ohio very much. The last report does not show very favorably, but the road is now going forward, not backward, as compared with the last fiscal year. In the industrials, Steel stocks are low enough, as are Car Foundry and Republic Iron and Steel. I have been rather chary of this class of stocks of late because of possible tariff agitation, but I now have reason to believe that this particular political issue will be shelved for a time and believe the securities in this group will do better. Smelters is also at a reasonable price. In fact, the Street is full of bargains.

WEEKLY LETTER.

October 19, 1907.

We have had this week a Stock Market of a different character from anything recorded in the history of Wall Street. The decline has been not because of any change for the worse in the fundamental situation, but in spite of a change for the better. The secret of the matter is that certain individuals, heretofore powerful in the financial world, have over-extended themselves as rashly as the most unsophisticated public trader and they have been forced to sacrifice holdings regardless of value. Their holdings have gone into the strong-boxes of wiser and more cautious men.

There is one cheering factor about a strained condition of this character; it cannot by any possibility endure. When prices get materially above values they must and will fall, and when prices get materially below values they must and will rise. Prices are, in my opinion, as much below values to-day as they were above them ten months ago.

The greatest danger to the speculator at present is participation in the universal fright which exists in Wall Street. It is, of course, very disgusting to make commitments and see prices crumble away, but the great question is not whether prices have declined, but whether basic value has been in any manner impaired. Prices can bob up serenely in a day or two if the foundation is solid and, therefore, we should give first place to a consideration of these values as they stand to-day and as they are affected by general conditions.

In forming this important conclusion, analogy will prove of some value. The percentage of decline in all considerable movements since 1885 has been as follows, using railroad stocks as a basis and figuring from extreme high to extreme low:

Year.	Percentage of Decline.	Duration.
1885-1886	10.53	Nov., 1885, to Mar., 1886
1887-1888	22.01	May, 1887, to Mar., 1888
1890-1891	28.73	May, 1890, to July, 1891
1892-1893	38.66	Feb., 1892, to July, 1893
1895-1896	34.37	July, 1895, to Aug., 1896
1897-1898	17.65	Sept., 1897, to April, 1898
1899	16.29	April, ..., to Dec., 1899
1902-1903	30.46	Sept., 1902, to Sept., 1903
1905	10.15	Mar., ..., to May, 1905
1906-1907	33.35	Jan., 1906, to date.

Stocks touched practically the same high prices in January and December of 1906; the average being 138.36 on January 22, 1906, and 137.56 on December 11 of that year; we might, therefore, divide the period thus:

Year.	Percentage of Decline.	Duration.
1906	11.59	Jan., ..., to May, 1906
1906-1907	32.80	Dec., 1906, to date.

It will be observed that our decline has already extended to a depreciation of about 33%, or within five points of the last great panic (1893), and 3% greater than the extreme depression of 1903. It will also be observed that so far as the essence of time is concerned we have had pretty long periods of decline, even figuring from December, 1906, and if we figure from the actual top (Jan., 1906), the period has been unusually long.

As to the cause of this great shrinkage it may be said without hesitation that inflation and the doing of too much business for our capital was the primary element. As early as December, 1906, a number of students of financial matters, of whom the writer was one, began pointing out the necessity of immediate retrenchment and predicting a slump in general business. These ideas appeared ridiculous to the laity at that time, for business was booming, dividends were being increased and all was rosy. But now what a change has come over the spirit of their dream. The stock market has discounted a depression to an unusual extent, and while the depression is now open and apparent in spots, it is my opinion that it has been over-discounted. That is to say, I believe that my own views as to the extent of a business decline were too drastic in their inception. I think the trouble has been over-estimated, and I am very sure that men of good judgment, with whom I have the honor of an acquaintance, share in this belief. Money troubles are about over. The weekly return of the Bank of England shows that the old lady of Threadneedle Street is in better shape now than for any corresponding week in recent years, with the exception of 1904. With a reserve of $25,000,000 above last year, we need have no fear of any more 6% discount rates. Our trade balance is also beginning to improve materially and will soon assume large proportions. As to the local situation, I will quote the remarks of George E. Roberts, former controller of the currency:

"I have been looking for a turn in money for some time.

"Each day brings us nearer to it, and we are very near it now. In fact, I have seen evidences of it the past ten days. The worst in tight money has been seen. The tendency is toward easier conditions.

"The West is in splendid condition. There is no reason whatever why there should be a commercial panic. The farmers have the crops and plenty of money. Their buying power is enormous.

"Very soon we will begin to feel the effect of the crop movement. It means that the balance of trade will be in this country's favor.

"New York seems to be having some more trouble, but the general outlook is encouraging."

Those who have followed the utterances of Mr. Roberts for a number of years know that he has been invariably correct in his estimate of basic conditions.

The fundamentals in other lines affecting security prices have been fully discussed in a recent letter and need not be repeated here.

Some are good; some are bad, but whatever is evil has been discounted and what is good is being ignored or questioned.

I shall put on foot to-morrow an inquiry to some 500 reliable correspondents in every part of the country as to general business conditions and attempt to gather from my replies a dependable idea as to what is to be expected. It is my opinion that the result will be gratifying, but if it is not I will have no hesitation in placing the adverse truth before my clients.

The Technical Situation.

There has been some covering of shorts all through the week and adverse events have made it possible to recover stocks easily. This, however, only encourages the bear element, and selling quickly appears on every little advance. A five point rise from this level will certainly be attributed to "short covering," but this deduction will be incorrect. There will be a larger short interest on such an advance than exists at the present time. On the whole, the technical situation has been improved by the elimination of a number of weak accounts with no diminution in the short interest.

Conclusion.

It is always the case at the bottom of a market that many rumors, some small failures, and vicious drives by the professional bears, keep the pot boiling and cause numerous quick declines and recoveries. That is the exact state of affairs at present. The popping of this small artillery, however, is no longer of importance. In a short time the complexion of affairs will change and at much higher prices we will find people who dare not make purchases now, bidding for shares.

We find in the archives of the speculative world, three great maxims, all attributed to Rothschild or to various Rothschilds. I don't go much on apothegms, but it is interesting to note how peculiarly pertinent these sayings are at present.

"Buy cheap and sell dear." We can be sure we are buying *cheap* at present.

"How did I make my fortune? By never trying to buy at the bottom and by always selling too soon." We haven't all bought at the exact bottom, but it will look like the bottom in a few months from now.

"Buy Rentes," advised Rothschild.

"But the streets of Paris are running with blood."

"That is why you can buy Rentes so cheap."

Wall Street has surely had a sanguinary tinge for a few months. That's why we can buy certain things "so cheap."

As has been recently stated, I like Pennsylvania and Atchison best in the high-priced rails, and Chesapeake & Ohio in the low-priced stocks. Smelters has been unduly depressed by the necessitous selling of an individual, and is now very cheap. Amalgamated I do

not pretend to give advice on specifically, because of the lack of adequate information as to their affairs, but I will say that the Copper metal situation is rapidly righting itself and before long the metal will settle around 16 or 18 cents. The cutting of Amalgamated's dividend to 4% is a bullish factor. If the dividend had been maintained at 8% or even reduced to 6%, that action would have been evidence of a desire to hold the market in order to sell the shares. It looks the other way now.

WEEKLY LETTER.

October 26, 1907.

It has been a strenuous week in New York. Panic has been averted only by the most heroic efforts of the United States government and rich individuals. Bank depositors, inflamed by rash stories, criminal advertisements and ill-timed speeches have insisted on having their money. Nine out of ten of the men and women who stand in line at the banks, are so wholly ignorant of banking methods that they cannot understand how an institution may be solvent and yet be forced to suspend. This is ridiculous but it is true.

It is probable that in a month from now and in a year from now we will look back on the events of this week as the most senseless and unwarranted combination of circumstances ever witnessed in Wall Street or anywhere else. Without one unsound basic factor in the situation we have verged on a grave and serious panic. When I speak of basic factors I refer to the business of the country, its crops, resources, etc. The statement that there was nothing unsound may properly be modified by pointing, not to the fundamentals but to the methods. I refer, of course, to the currency situation. It is rotten, but it will be improved—it must be improved. In this regard, it is interesting to follow the remarks of Joseph French Johnson, Dean of the New York University School of Commerce, at the American Institute of Banking last night. Professor Johnson said:

"New York City is now getting a most impressive object lesson in practical finance. If the national banks of this city had the right to expand their circulation in the manner provided by the plan of the American Bankers Association, this week's insane scramble for cash would never have happened. Not all panics can be prevented by a perfect currency system, for some panics are the result of errors of judgment in the use of capital, the mischievous effects of which cannot be averted. The present, however, is a good times panic. It is psychological rather than financial in character. We find its causes in men's minds, not in business conditions.

"The banks and trust companies of this city have in their vaults the largest store of good credit that can be found in any city in the world, but much of it is utterly unavailable because of the rigid character of our currency system. One of the trust companies that closed its doors has in its possession live assets amounting to over $50,000,000. All this credit is dead. It cannot do the work of a

single dollar in the paying teller's cage. What is wanted in a time like this is freedom to convert the credit of banks into a medium of payment that will satisfy the people. Then New York City would take care of its panic without the slightest need for aid from the Federal Treasury."

This is all true but, for the present, the trouble is over. It is always the case that at a time of stress a real leader appears. Anyone can be a leader in peaceable periods. Mr. Morgan has, in my opinion, demonstrated his right to the title of the greatest and safest figure in the financial world. I do not mean to say that he is not cold-blooded and calculating, we are considering his head, not his heart. He does not put his arm about the shoulders of reporters or make speeches in Sunday school, but he does more than any single man in the United States to save a strained and serious situation. Instead of making cheerful remarks at a critical time he sends his porters into his vaults and tosses $25,000,000 into the Stock Exchange just at the right moment. It is like the old story of the poor widow in distress. One man went to her house and knelt with her in prayer, the other sent her a barrel of potatoes. The application is quite pertinent at present.

The most noteworthy thing in the market this week has been the unusual strength of one or two stocks. Pennsylvania has shown particularly well. This is due to the fact that while the return on money is not so great as in many other gilt-edged shares, the stock is closely held by thousands of small investors and is not in the market. Steel common is rapidly getting into the same position. Atchison has lost some prestige because of the bitter remarks of an axe-grinding official of the company who should have had decency and sense enough not to knock his own securities and his own territory at a time like this. The stock is easily worth par and Mr. Ripley knows it.

The income yield on a few of the leading shares at the low prices of October 24, was as follows:

RAILS.		INDUSTRIALS.	
Atchison	8.27%	Amalgamated	9.41%
B. & O.	7.74%	Am. Smelters	12.31%
St. Paul	7.00%	Am. Loco.	12.50%
L. & N.	6.49%	Am. Sugar	7.18%
Mo. Pac.	10.00%	Distillers	15.00%
Nor. Pac.	7.00%	Nat. Biscuit	8.70%
Penna.	6.09%	Nat. Lead	14.29%
Reading	5.71%	People's Gas	8.27%
So. Pac.	7.80%	U. S. Steel	8.89%
Union Pac.	10.00%	U. S. Steel pfd.	8.55%

Most of these dividends are secure at the present rate. In many cases the actual earning capacity is more than double the rate of disbursement. We will look back on these figures in a few months just as we have always looked back on vanished opportunities.

The Technical Situation.

The technical situation is, of course, greatly strengthened in any period where stocks pass from weak to strong hands. At a time like this, however, technical strength is of little avail, so far as the effect on day to day fluctuations is concerned. The whole thing has been a question of cash. For example, London tried to buy thousands of shares of stocks in our market yesterday and brokers simply could not fill the orders for fear they could not borrow on the certificates temporarily. The ordinary custom is to execute such orders and draw for the amount involved. Thus, because of the abnormal condition of the money market, a rich man in London cannot purchase shares except on a cable transfer. All this will adjust itself rapidly, meanwhile we suffer the evil effects so far as mere quotations are concerned.

Conclusion.

There is nothing to do in a time like this but to refuse to make sacrifices and, if possible, to take advantage of bargains. So far as day to day fluctuations are concerned, prophecy of any kind is mere guesswork. When matters are moving in a normal manner the stock market is not such a complicated machine as one might suppose, but when the fluctuations are dependent on the actions of people who lose their heads; when prices have no relations to values; when, in short, the situation is entirely artificial and not subject to rules or logic prices are matters of necessity, not of equity. There is this to be said, however, speculation has been practically eliminated this week, and each transaction now represents the actual purchase of shares by people who are long-headed enough to recognize bargains and long-pursed enough to pay for them. The tremendous import of this fact must not be under-estimated. It means that the incipient panic is over; that the chasm has been bridged.

Personally, I have endeavored in my small sphere to say what cheerful words I could and to prevent sacrifices wherever my influence extended. I think that was the right thing to do. It is a matter of record that I have not been mistaken in the main movements of the stock market in twelve years, which is a pretty good evidence of the efficacy of the methods employed. I have been disturbed by the events of the week, of course, but I have lots of company. And without any desire to multiply personal words in a Market Letter, I will take occasion to thank my correspondents for their kind letters and hearty co-operation at a time when we are all perturbed. Of course, such periods only come now and then, and we must meet them when they do come.

I feel very certain that our unwarranted trouble is over and that the situation is stronger and sounder to-day than it has been for years. It will probably be a long time before extraneous and artificial influences will again interfere with our calculations. The holders of stock should realize above all things that a mere price

decline does not mean an impairment of intrinsic value. The question is one of income.

I strongly advise purchases of all leading stocks at this level. Continue to recommend particularly Pennsylvania in the rails and Steel common in the industrials.

WEEKLY LETTER.

November 2, 1907.

Ten months ago, when stock prices generally began to crumble in a period of great prosperity and enthusiasm, the majority of observers of prices and fluctuations could not understand how it was possible for any material decline to appear. Month by month stocks crumbled, and in March there was a "silent panic," which carried prices to what looked like bargain figures. Still there was no open evidence of depression or business stagnation, and when an artificial recovery occurred, the public plucked up courage and renewed their operations for long account. Again prices declined and, in ten brief months, the entire improvement of almost four years is cancelled.

Now we have a distinct reversal of all the optimism of the past. Everyone is blue and downcast. The superficial observer cannot see how it is possible for anything to occur in the way of a material advance in stock prices. Banks are suspending, mills are closing, railroads are laying off men and curtailing orders for material and equipment. How, inquires the observer, can advances occur under such conditions?

We may answer this question by asking another: How could declines occur while things looked so rosy?

The reason for the decline which started in January of 1906, and has now reached its acute stages, was merely that Wall Street was discounting the future, as it always does. Students of price movements who pointed out the probability of a great decline a year ago, were laughed to scorn. They meet with the same opposition now in pointing to the probability of a great advance.

In my letter of February 2, 1907, I said:

"Every upward movement in stocks from now on will be created for the purpose of liquidating holdings *and for no other purpose.* It stands to reason that such movements will be accompanied by explanations and roseate views. These upturns are laboriously manufactured in order to make people bullish, for of such is the Kingdom of Wall Street."

And at present it is safe to reverse that view in sense and substance.

We have now spread visibly before us the *causes* of the decline of 1907. Being visible and openly apparent, they are no longer speculative. And our speculative opinions must be curtailed, not only by what has already been shown in actuality, but by what is clearly probable. If we know that a certain steel mill has closed and that it is expected that another will be closed, both factors are

promptly discounted. We cannot, by any possibility, base our calculations on either fact or surmise; we must resort to correct theories as to the *submerged* future. Thus, in the present instance, the question is not what our business will be for the next six months, but what it will be a year from now.

In regard to this question of business depression, as evidenced by a falling off in all lines, failures here and there, the closing down of mills and factories, etc., we must not view this matter with a jaundiced eye. It is not safe to look at the evil represented by such events unless we look also at the good which will be accomplished. This phase of the subject has many facets. Two points are particularly interesting. First, the question of capital and labor. No man who understands the rudiments of finance will deny that the greatest question now presented to all corporations, railroad or industrial, is that of a fair amount of labor at a fair price.

Depression in general business will accomplish three things.

1. It will reduce the cost of labor.

This is already evidenced in many quarters. The Butte miners, for example, have accepted $3.50 per day as against $4 a few months ago. Butte is the stronghold of union labor.

2. It will increase the efficiency of labor.

When there is a surplus of labor the best man gets the job.

3. It will reduce the price of commodities.

This will permit laborers to live on a lower wage and will permit railroads and other companies having a fixed rate for their *selling* commodity to buy both labor and material cheaper.

The second phase of the question is that a recession in general business will make money easy, and when money rates fall, stocks which show a high rate of income will rise. That is as certain as that water will seek its own level.

And there is still another important factor. If, as a class, we underestimated the extent of probable business depression a year ago, is it not a little more than possible that we are overestimating it now? Personally, I think this is the case. When the first half of our recent decline occurred we reverted at once, for comparisons, to 1903—now that we have passed through that line of demarcation we naturally turn to the affairs of 1893 and the great depression of that year. I think this is a comparison which does not compare. 1893 was a debit year. The total value of our cotton crop was $250,000,000 as against $650,000,000 this year. In 1893 our wheat crop sold for $225,000,000; this year for $630,000,000. Our corn brought less than $600,000,000; this year it will bring at least $1,250,000,000; our pig-iron production amounted to a trifle over 7,000,000 tons; now it is over 25,000,000 tons. Of course, a great increase in all commodities was warranted by our growth of population (from 67,000,000 in 1893 to 86,000,000 to-day). It goes without saying, also, that high prices at home may represent only a swapping of dollars, but our credit balance on exports and imports may be conservatively estimated at $400,000,000 in the last fiscal year as against a debit of $35,000,000 in 1893. I have already produced

these figures in recent advices, but they are of sufficient importance to bear repetition.

Even after we consult the logical and fundamental features of the situation, there is something lacking. We want to know how near the bottom we are and whether or not we are to have a long wait at the approximate low points. Let us see what we can determine on the two heads.

There are numerous analogical schemes for finding the turning point. Charts are the most popular instruments, but I do not care to discuss them. There is no record of a permanent and continuous gain by this method. Sometimes they work; sometimes they do not. It is out of the question to make a mere machine of a stock market. Charts have their value as a convenient method of picturing history, but it is my opinion that they will ultimately ruin the man who adopts them as a basis of trading.

An examination of comparative extent of decline in great movements is somewhat interesting and instructive. Taking the 20 best dividend payers in one group; 20 best non-dividend payers in another, and 20 best industrials in a third, and averaging the high and low points, we find that the present decline in the dividend-paying rails in the present movement has been 45% as against 31% in 1902-03; in the non-dividend-paying rails, 60% as against 55% in 1902-03, and in the industrials, 62% as against 57% in 1902-03. It will be understood that these figures are percentages and not "points."

We may also consult the character of the buying at present. It is unquestionably good. Brokerage houses are doing practically nothing on margin and certificates are rapidly disappearing from the street. This means a constant strengthening of the foundation by a reduction of the floating supply of stocks. The forced selling of the past month has certainly driven out most of the weaker traders and their sacrificed stocks now rest in strong hands.

But after we examine all these known rules and signs for some method or methods of determining the approximate top or bottom of a market, we may lay them all aside in favor of a method of calculation which so far has never failed. I refer to income return on money. We have never had a panic or a crisis so drastic but that from somewhere, somehow, funds were forthcoming in volume when income returns reached unusually high figures, and, per contra, we have never had a period of prosperity so great but that low rate of income endangered stock prices. As an illustration of this, it may be pointed out that at the high prices of last year twenty standard rails showed an average return of only 3.7%. In 1893 the decline was stopped abruptly when returns on these same shares averaged 6.3%. To-day the return is 6.89%.

I do not mean to say that the market should stop declining whenever income return corresponds with the normal value of money. There is always a swing from one extreme to the other. The return is far greater now than at any time since 1884. The purchaser of standard stocks under present circumstances may be

positive that before long prices of stocks will return to or above the level warranted by the normal value of money.

There is another point. In considering this question of income return we must, of course, give due attention to the factor of safety; the stability of dividends: It would be foolish to figure that a certain stock returns 8% on money unless the dividend is to be maintained. For example, in 1902 hundreds of investors bought Steel common around 20 on the theory that it paid about 20% on money. In reality it paid nothing at all, as the dividend was discontinued shortly after. It may be said, however, that the stability of dividends is unquestionably greater now than in 1893.

As to the question of the possibility of a sharp recovery in prices under present conditions, it may be pointed out that stocks advanced 25%, or about 15 points on the average between July and October of 1893. Things were at their worst in the business and banking world while this advance was going on. In 1903 there was a recovery of 16% between September and December and again general business was just beginning to feel the depression. In both these periods it was impossible to convince people that an advance could occur and after the first five points recovery short sales were the rule rather than the exception.

The Technical Situation.

The technical situation cannot but be good at present, and it is improved every time a lame duck is forced to sell. In my opinion, most of the necessitous liquidation has been completed.

Conclusion.

It is my opinion that the present opportunities are greater than for twenty years. A large portion of the recent decline has been entirely artificial, representing nothing but the forced selling of certain firms and individuals and a scarcity of actual money. The last ten points of decline has been more or less in the nature of an accident. Mr. Heinze's attempt to corner United Copper reminds one of the cow that kicked over the lamp in Chicago. It started a big fire.

As to the probable course of fluctuations in the near future, it is, of course, only guesswork to attempt to gauge day to day movements under such conditions as exist at present. It is always the case that near the bottom of a market everything looks very bad and certain interested people see to it that they look even worse than they are. No individual, firm or corporation is exempt from rumors and slander at such times. This, of course, has some temporary effect on prices, but the effect is limited. We may gauge values and deduce ultimate movements from them, but there is no possible way to measure the effects of fear or falsehood.

Practically every listed stock is now far below its value, and it is my opinion that the recovery will soon begin in the general list.

As to specific stocks, I will issue next week a special letter showing the position of leading Rails and Industrials, both common and preferred, with dividend, income return and the margin of safety.

I strongly advise purchases of stocks at this level. It would take a most severe and unlooked for accident to depress the general list five points below the present range.

WEEKLY LETTER.

November 9, 1907.

The comparative status of leading railroad and industrial stocks as shown in the following tables is of interest at present. The margin of safety is arrived at by subtracting the amounts necessary for preferred and common dividends and reducing the surplus to percentages. As all annual reports are not yet available it has been necessary to make estimate based on the last monthly reports in some cases. The fixed charges have been based on figures for the fiscal year 1906, and, while some changes have recently occurred, they are not important. Operating ratio has been figured on last obtainable reports.

It will be understood that these tables cannot be taken too literally. They are broadly comparative rather than individually basic. The idea is to bring out the importance of low fixed charges and operating expenses; the income return on money at present prices and the relative position of various corporations as regards the probable maintenance of dividends in a period of general business depression. It will be observed that many of the preferred stocks in both groups are in a practically impregnable position and many of the common stocks can stand a great deal of adversity without dividends being endangered. On the other hand, the weak spots are clearly shown. The detailed table of railroad stocks which accompanies this letter will show in detail the method of arriving at computations.

PREFERRED RAILROAD STOCKS.

Stock.	Dividend Rate.	Income Return.	Fixed Charges.	Ratio of Operating Expenses.	Margin of Safety.
Atchison	5%	5.88%	42%	67.37%	13.10%
Baltimore & Ohio...	4%	5.00%	39%	65.53%	27.16%
M. K. & T..........	4%	7.27%	75%	58.41%	24.33%
Norfolk & Western.	4%	6.15%	37%	61.02%	26.45%
Reading, 1st........	4%	5.33%	45%	56.01%	25.60%
So. Pac.	7%	6.75%	49%	69.85%	27.49%
Union Pac.	4%	5.00%	31%	57.95%	31.02%
Great Northern	7%	6.15%	26%	51.00%	7.55%

COMMON RAILROAD STOCKS.

Stock.	Dividend Rate.	Income Return.	Fixed Charges.	Ratio of Operating Expenses.	Margin of Safety.
Atchison	6%	8.27%	42%	67.37%	9.03%
Baltimore & Ohio	6%	7.50%	39%	65.53%	4.69%
Chesapeake & O.	1%	3.60%	53%	64.30%	8.97%
St. Paul	7%	6.80%	32%	58.60%	4.37%
Chic. & N. W.	7%	5.30%	39%	62.70%	6.11%
L. & N.	6%	6.32%	54%	74.92%	4.75%
Mo. Pac.	5%	9.09%	60%	67.76%	3.58%
Nor. Pac.	7%	6.42%	29%	50.08%	6.63%
Norfolk & Western.	5%	7.69%	37%	61.02%	4.30%
Ontario & W.	2%	6.67%	53%	60.80%	0.85%
Pennsylvania	7%	6.40%	38%	69.70%	5.06%
Reading	4%	5.16%	45%	55.80%	3.85%
So. Pac.	6%	8.89%	49%	69.85%	5.50%
Union Pac.	10%	9.09%	31%	57.95%	6.77%

PREFERRED INDUSTRIAL STOCKS.

Stock.	Dividend Rate.	Income Return.	Margin of Safety.
Am. Car & Fdy., Pfd.	7%	8.48%	20.13%
Am. Locomotive	7%	8.00%	18.43%
Am. Smelting	7%	8.00%	12.83%
Nat. Lead	7%	8.24%	5.12%
Pressed Steel Car	7%	10.00%	17.25%
Rep. Iron & Steel	7%	12.17%	11.27%
U. S. Cast Iron Pipe	7%	13.33%	8.50%
U. S. Rubber	8%	10.00%	4.66%
U. S. Steel	7%	8.24%	20.24%

COMMON INDUSTRIAL STOCKS.

Stock.	Dividend Rate.	Income Return.	Margin of Safety.
Am. Car & Foundry	4%	14.55%	16.13%
Am. Locomotive	5%	12.50%	13.43%
Am. Smelting	8%	11.43%	4.83%
Nat. Lead	5%	13.33%	0.32%
Cast Iron Pipe	4%	20.00%	3.50%
U. S. Steel	2%	8.00%	12.35%

In the preferred industrials all dividends are cumulative, except on American Car and Foundry, Pressed Steel Car, U. S. Cast-iron Pipe and U. S. Rubber.

While these figures have considerable bearing on the present and the future, I believe their chief value is analogical. In considering the probable future movement of stocks we are naturally inclined to hark back to former periods of stock price depressions

and draw comparisons which are of no value. Let me give two examples of the fallacy of this kind of reasoning—one in the Rails and one in the Industrials. I will take the leader in each group—Union Pacific common and U. S. Steel common. Union Pacific in 1903 paid 4%. Compared with the present time, the figures show about as follows:

UNION PACIFIC.

Year.	Dividend Rate.	Income Return.	Fixed Charges.	Ratio of Oper. Exp.	Margin of Safety.
1903..	4%	6 %	49%	56.28%	3.06%
1907..	10%	9.09%	31%	57.95%	6.77%

U. S. STEEL COMMON.

Year.	Dividend Rate.	Income Return.	Margin of Safety.
1903—1st half	4%	13.33%	3.00%
1907—1st half	2%	8.00%	12.35%

It will be observed that while these two stocks are in a much stronger position than in 1903, they are in reality lower in price. Steel, it is true, shows a larger income return in 1903, but that argument has no weight, as the dividend was not maintained in 1903 and is perfectly safe at present.

The General Situation.

The principal event of the week has been the advance in the Bank of England's discount rate to 7% and the tightening up on gold in other European countries. There is nothing alarming about this. It is highly probable that the $40,000,000 of gold already secured will be ample to meet our wants for the present, and unless all precedent goes by the board, money will soon be plentiful. No criticism can be laid at London's door because they wish to protect themselves, in fact, the criticism belongs at home. Some people never know when to stop, particularly when a few selfish dollars may be obtained at the expense of legitimate conditions. From a stock market point of view it is far better to have the resources of the world equitably distributed than to bring about a jug-handle state of finance which will cause foreigners to dump our stocks back into the country at a crucial time. Our security interests are too diversified and the monetary affairs of the world too interdependent to permit of any top-heavy arrangements. Such an abnormal state of affairs would certainly redound to the disadvantage of all concerned.

As an exhibit of how rapidly money affairs will recover from panic conditions it may be pointed out that in 1873 the rate of the Bank of England was raised from 6% to 7% in October, and to 9% early in November. On December 1, the rate was 6%, and on June 1, 1904, 2½%. So far as our own rates are concerned in periods of stress, it will be remembered that in 1893, call money fell from 74% to 1% between July and September, and time money from 6% and commission, to 2½% between July and November.

Practically the same thing has occurred in all periods of like character. If we are to have such a rapid clearing up in money affairs in the present instance, and in my opinion there is no doubt of it, we may safely argue that a great deal of money will go into securities in anticipation of the change for the better. In fact, such funds are already appearing in considerable volume. The long-headed men who really make the market, *speculate* on the future, not on the present. No better evidence of this could be given than that since November 1, with money conditions badly strained, with considerable necessitous liquidation, with hundreds of evil rumors and with some vicious short selling in certain quarters, we have witnessed no decline in the average prices of stocks. The buying which has sustained prices is also of an excellent character. The small investor is much in evidence and while transactions in this quarter are small as to individual amounts, the aggregate is very large. There is also some good accumulation by inside interests which have been prominent in adjusting the recent troubles and after the smoke clears away it will certainly be seen that a great shifting of interests has occurred and that we have, in short, passed through a period of practical reorganization. So far as the actions of the great individuals referred to is concerned, without any intention of belittling their material aid or any desire to impute motives, I may say that I never heard it insinuated that they were in business for their health. Anyway, in the last analysis, stockholders, large or small, are benefited by the passing of securities or control from weak to strong hands.

The Technical Situation.

The technical situation is steadily growing stronger. There is practically no margin account of importance on the long side, and there is a very considerable amount of short-selling. We hear a great deal about brokerage concerns refusing marginal commitments and in many cases this is true, but the chronic bear has no trouble whatever in making his trades. It seems incredible that anyone would be so rash as to sell short at present prices and under present circumstances, but there are lots of rash men in Wall Street. The steady absorption of stocks is already being reflected in loaning rates, but the simon-pure gambler cares nothing about loaning rates. The technical position is very good and will soon assert itself in prices.

Conclusion.

It is my opinion that the bottom of the Stock Market has been reached, and that any declines now, either specific or general, will be *culminating* declines. On every flurry such as was occasioned by the raising of the Bank of England's rate, good buying will appear. It is certain that money ease will occur at the expense of many lines of general business, but this has already been more than discounted in stock prices and the high rate of return on

stocks must certainly reconcile itself to low interest rates and idle funds. This means an advance in stock prices wherever the rate of income is stable.

The readjustment of prices has been so thorough and comprehensive that it is hard to pick and choose. Personally, I like Union Pacific, Southern Pacific, Atchison, Chesapeake & Ohio, B. & O., L. & N., and Chicago & Northwestern in the common stocks. As to the preferred shares the question is wholly one of income return. In the industrials Steel common looks as good now as it looked bad a few months ago.

I will reiterate the opinion that the purchaser of good stocks at this level has nothing to fear, and that the opportunity offered is that of a decade. Also the seller of stocks is either making sacrifices or selling securities into a bag.

SPECIAL LETTER.

November 9, 1907.

RAILROAD STOCKS.

Margin of Safety over Preferred and Common Dividends on Basis of Last Annual Reports.

Railroads.	Earnings Applicable to Dividends.	Div. Rate.	Required for Dividend.	Balance After Dividend.	Margin of Safety.
Atchison, pfd. ..	$20,665,757	5%	$5,708,690	$14,957,067	13.10%
Atchison, com. ..	14,957,067	6%	5.655,033	9,302,034	9.03%
Balt. & O. pfd...	18,701,865	4%	2,400,000	16,301,865	27.16%
Balt & O. com...	16,301,865	6%	9,130,488	7,171,377	4.69%
*C. & O. (*a*)....	6,263,164	1%	627,907	5,635,257	8.97%
C. M. & St. P.,com.	9,430,845	7%	5,803,700	3,627,145	4.37%
C. & N. W. pfd..	14,009,986	8%	1,791,600	12,218,386	54.50%
C. & N.W.com.(*b*)	12,218,386	7%	6,118,578	6,089,808	6.11%
*Ill. Cent. (*c*)...	8,888,523	7%	6,652,800	2,235,723	2.35%
L. & N..........	6,450,522	6%	3,600,000	2,850,522	4.75%
M., K. & T. pfd..	3,682,311	4%	520,000	3,162,311	24.33%
Mo. Pac (*d*).....	6,659,836	5%	3,890,894	2,768,942	3.58%
No. Pac (*e*).....	21.135,606	7%	10,850,000	10,285,606	6.63%
N. & W. pfd.....	7.000.319	4%	919,644	6,080.675	26.45%
N. & W. com....	6.080.675	5%	3,233.460	2,847,215	4.30%
O. & W.	1,654,785	2%	1.162,302	492,483	0.85%
*Penna.	37,642,200	7%	21,844,370	15,797,830	5.06%
Reading, 1st pfd.	8,297.097	4%	1,120,000	7,177,097	25.60%
Reading, 2d pfd..	7,177.097	4%	1.680.000	5,497,097	13.11%
Reading, com. ...	5.497.097	4%	2.800.000	2.697,097	3.85%
So. Pac. pfd.....	26.067.130	7%	5.289.879	20,777,251	27.49%
So. Pac. com.....	20.777.251	5%	9,892.463	10,884,788	5.50%
Un. Pac. pfd.....	35.771,733	4%	3,982.006	31,789.727	31.02%
Un. Pac. com....	31,789.727	10%	19.548.790	13,240,937	6.77%
*Gt. Nor. pfd. (*c*)	21,762,519	7%	10,470,040	11,292,479	7.55%

* Estimated.

(*a*) July 31, 1907, an issue of $10,000,000 imp. and equip. bonds was authorized.

(*b*) An increase of $77,989,020 common stock authorized, Oct. 18, 1906, not outstanding.

(*c*) Actual income from earnings without items from other sources, but rentals are charged same as in 1906.

(*d*) Actual earnings only without references to "other income."

(*e*) Without including $2,338,324.41 interest and dividends on securities owned. Calculated on capital stock of $155,000,000. Receipts are outstanding for $14,721,100 new capital stock not included here.

WEEKLY LETTER.

November 16, 1907.

The trading for the week has been of a perfunctory nature and limited largely to the operations of room-traders. The buying continues to be of a very high grade, emanating chiefly from large interests who sold stocks a year ago and are now repurchasing, and from small investors. There is also some institutional buying, but this is necessarily limited in amount under present money conditions. This class of purchases will appear in considerable volume in both bonds and stocks as soon as our money conditions are better. The selling in the general list is largely for short account, but there is now and then a specific depression from the selling of collateral held in loans. This latter class of liquidation is more likely to affect the gilt-edged shares than the cheap rails or industrials, which have already been pretty well cleaned up in the loan accounts.

The most interesting questions at present are the money situation; the probability of the maintenance or reduction of dividends; the political situation, and the probable future of general business.

The Money Situation.

The money situation is unquestionably bad, but the trouble will be of brief duration. In the currency famine of 1893 the premium on currency disappeared in ten days, and money, after loaning on call at 74% in the last week of July and at 12% and commission for 60 days, gradually fell to a normal rate of 1% for call and 4% for 60 day funds in October. In November money was a drug in the market at 1% for call and 2% for 60 days.

Of course, it makes no difference how cheap stocks may be or how much people may desire to buy the bargains, if no money is at hand. Neither can distressed individuals retain their stocks if they have no way of protecting themselves or if cash is so imperatively required as to make sacrifices necessary. This is all true enough, but there is one great sustaining feature and that is, the good buying which comes from the people who *have* money. Such people are always at hand at the right time. True, their purchases have little effect in advancing prices. This class of investors never bid the

market against themselves. They are patient, and they are more pleased to see the market decline a point than to make an equal advance.

But while this buying has no immediate effect on prices, its sustaining power and its power to create a scarcity of stocks is unquestionable. The purchases are quietly made now in recognition of the fact that money will soon be easy and that if any attempt is made to wait until the actual ease occurs it will be necessary to pay five or ten points more for the favorite shares. It may be added that so far as the character of the present buying is concerned, prima facie evidence of the wisdom of the buyers may be found in the fact that they *have* money to invest under present circumstances.

There is a good deal of idle talk about our recent imports of gold being in the nature of a loan which must be repaid. It is merely a payment on account against our exports of merchandise. The matter is on an entirely different basis from the affairs of 1893, in which year we were a debit nation. It is fashionable at present to draw parallels between 1893 and 1907, but the parallel ceases with the currency famine. In 1893 we were not only suffering from numerous preceding crop failures, but the year itself made a miserably bad showing. In that year we made 396,000,000 bushels of wheat, against 516,000,000 in 1892 and 612,000,000 in 1891. Of cotton we made 7,500,000 bales as against 6,700,000 in 1892 and 9,035,000 in 1891. The normal crop of wheat at that time was about 550,000,000 bushels and of cotton about 9,000,000 bales. The wheat crop of 1893 was the smallest with one exception (1885) for 20 years and the cotton crop of 1892 was also the smallest since 1885.

Another point bearing on both money and the comparison with 1893 is our gold supply. From 1883 to 1893 the world's production of gold increased from about $102,000,000 in the former year to about $157,000,000 in the latter, a little over 50%. From 1896 to 1906 it has increased from $202,000,000 to $410,000,000; over 100%. This factor is very important. We are adding to our gold at the rate of at least $1,000,000 a day or $365,000,000 per annum, which means a possible credit expansion, based on a 25% reserve, of $1,460,000,000 per annum. And in this regard it may be pointed out that our recent imports of $60,000,000 of gold represent a credit relief of $240,000,000. The question of currency in a few months is more likely to be one of an embarrassment of riches than of paucity.

The Stability of Dividends.

As to the probability of dividend maintenance it may be said that rumors and fright lead to much unnecessary apprehension on this head. In the long depression following the severe panic of 1893 dividends suffered from their highest to their lowest points only about $15,000,000. The dividends paid in 1893 had reached an aggregate of $100,929,885 and the amount carried to surplus for the year was only $8,116,000. In 1894 aggregatte dividends were $95,515,226 with a surplus of about $46,000,000 and in 1895

$85,287,000 and surplus $30,000,000. Since that date there has never been a declining year in dividends. The depression of 1903 witnessed an actual increase of disbursements on railroad shares. Total disbursements reaching about $197,000,000 in 1903; $222,000,000 in 1904, and $237,000,000 in 1905. The total number of actual changes in 1893-4-5 was 16 reductions and 12 increases out of a total of 120 stocks, and in 1903-4-5 ten decreases and 39 increases on the same properties. It should also be remembered that railroads are in much better shape to withstand a period of stagnation than in 1893.

That there will be some reduction of disbursements in certain quarters is pretty certain, but in all cases such probabilities are so plainly reflected in the affairs of the corporations as to warrant the belief that they have already been discounted in stock prices. On the other hand such stocks as Atchison, Pennsylvania, Northern Pacific, Union Pacific, etc., are perfectly safe as to dividends and such preferred stocks as Atchison, B. & O., M. K. & T., Union Pacific, Great Northern and Chicago Northwestern are the equivalent of bonds.

In the Industrials there are a number of weak spots, but here again the element of dicount enters. Smelters, for example, should, and no doubt will, reduce its dividend after the next disbursement, but Smelters at present prices on a 5% basis returns over 8% on money and on a 6% basis about 9½%. There are also many strong spots in this group of stocks. Steel Common and Preferred are in an impregnable position and any decline now represents the necessary selling of one or two individuals, or what is far more likely, the operations of short-sighted bears.

It is my opinion that the effects of the forthcoming Presidential campaign is also attracting undue attention. With the exception of 1896, there is nothing to show that a Presidential contest can be broadly considered as a bear factor. There is no such issue before the people as in 1896, when great depression accompanied silver agitation. In fact, it is probable that just now both parties will strive to emphasize issues which make for improvement. It is practically certain that the necessity for adequate currency laws has at least been drilled into political leaders. They recognize the fact that if the plan of the American Bankers' Association had been adopted no currency famine would have been possible. Under this plan New York alone could have issued $26,000,000 of 3% notes and $13,000,000 of 5% notes and Boston, Philadelphia, Chicago and Pittsburg could have emitted an aggregate of about $40,000,000 more. And every other central reserve city would have been able to take care of its own territory.

General Business.

As to the probable future of general business, it is my opinion that the depression will be short-lived. The recent cataclysm has been so sudden and severe that it has caused contraction in certain lines which is not warranted but could not be avoided. There is no doubt but that the last three years has brought about undue expan-

sion of credits. This danger has been constantly pointed out in these advices since the first of the year. It was impossible to make people see the truth then and, per contra, it is now impossible to make them see the reverse of the shield. They could not understand how stocks could decline while business was booming and they cannot now understand how they can advance while business is suffering. It may be safely figured, however, that the last ten points of our recent decline has been brought about by conditions of a temporary character which have no real bearing on values, and that this portion, at least, of the depreciation in prices will be quickly eliminated as soon as the pressure is relieved. We may take, for example, the drop in Northwestern traffic. This was caused, not by a fundamental lack of business, but by a lack of funds with which to purchase and ship wheat. The wheat will all be shipped, however.

I do not believe this recent flurry would have occurred in anything like its present form from basic causes. It was precipitated, partly by accident and partly by design. Certain great interests, possessed of much cash or its equivalent, saw the opportunity to acquire control of certain properties and drive undesirable competitors from the field. When men of their ilk see such an opportunity they usually grasp it. Already, before the smoke of battle has cleared away, we see these victors emerging from the carnage with their arms filled with the trophies of war. This shifting of interests is not without salutary phases—many undesirable factors have been eliminated from the banking and business world and the foundation of the whole economic structure has been strengthened. It is mere silly sentimentality, however, to argue that the men who have been active in effecting this drastic rehabilitation and reorganization did so without self-interest. It would be decidedly interesting to take a peep into a few of the great vaults of banks and financiers and see if a good deal of the "hoarded currency" for which the public is so bitterly blamed is not peacefully reposing therein and gradually reappearing in the purchase of securities. Of course, these people would not dare to *sell* their currency, but it should be considered that the delicate mechanism of the stock market has already unquestionably covered this premium in stock prices and that they may gain the same advantage in security purchases.

While there is now, as always, considerable division of opinion as to the endurance of our present depression, it is the opinion of many of our closest observers and clearest thinkers that the trouble is more specific than broadly basic and that the improvement will soon begin. Mr. Cortelyou voiced the general opinion of this class in his address of November 14. "The release of hoarded money would restore nearly normal business conditions in 24 hours."

Conclusion.

The purchaser of good stocks at this level is basing his operations parallel to those of big men and shrewd investors. The seller is allied with plungers and gamblers who will never see the bottom of a market—chronic bears.

As to the choice of securities, I should say unhesitatingly that the high-grade rails are the safest and offer the greatest immediate opportunity. Easing up in money rates will make this class of stocks very attractive and when income return and time money spread apart, the surplus funds will seek first, the high-class bonds and then the dividend-paying railroad stocks. The other groups will move later. There is, however, much interest evidenced in cheap non-dividend-paying rails and I will produce next week a very complete analysis of this class of stocks, showing earnings for a period of years and the amount earned for the common stocks based on the last monthly report. This will give a pretty fair idea of the status of cheap shares.

A great many people ask the question at present: "Is it not probable that I can secure stocks a little lower later on." This is possible but not probable. The worst of our troubles have appeared during the last two weeks, and during that period there has been practically no decline in the average price of stocks. There is another thing to be considered. If you sell your holdings now or neglect to buy stocks now and they do *not* go lower, the market may get away from you; if the market declines a little it is certain that surface appearances would be even worse at the bottom than now, and in nine cases out of ten the waiter will still wait until it is everlastingly too late. It is sufficient to know that stocks are very cheap, that there is enough good buying in the market to prohibit any severe decline and that prices are bound to reconcile themselves to value before long. It is useless to wait for the last point or two. As David Harum remarked: "No one but a fool ever buys at the bottom."

It is my opinion that the present conditions and the present range of prices offer greater opportunities than have occurred since 1893; greater even than in that year. There will, of course, be chances to accept profits when we get to going too fast or too far, and await another break. Any definite opinion on this head must, however, be governed by future developments.

I advise buying good stocks now, particularly the common shares of dividend-paying railroads.

WEEKLY LETTER.

November 23, 1907.

As a great many people are now interested in the low-priced non-dividend paying rails, I have compiled the following table, based on last monthly reports. The process of computation was simply to find the percentage left for the common shares after deducting all fixed charges and preference dividends from net earnings. The percentage was then multiplied by twelve.

It will be understood that whether this ratio is to hold depends entirely on future developments. If net earnings increase, the amount applicable to common stocks would also increase. If, as is more probable, net earnings fall off somewhat, the reverse will be true.

It need not be said that the balance for common stocks does not represent a probability of immediate dividends. But whether the balance shown goes into betterments or remain in surplus, it may be broadly considered that it is, in the last analysis, to the ultimate benefit of the common stockholders. This fact is pretty well demonstrated by the prices of the stocks considered. There are, in all cases, some special influences which affect ruling prices. In order to arrive at these it will be necessary to examine each report in detail, which would be obviously impossible in this letter. The table, however, will serve to point out the weakest and strongest spots from the standpoint of earnings alone.

The earnings for a series of years is also given for purposes of comparison.

ANALYSIS OF COMMON STOCK VALUES OF NON-DIVIDEND PAYING RAILROADS.

Road.	†Yearly Net Earnings. 1904.	1905.	1906.	1907.	Latest Reported Monthly Earn. in 1907. Month.	Net Earn.	Yearly Equiv. §%
Ch. Gt. West.	$1,902,623	$2,038,6'8	$2.538.943	$2,555,279	May ..	$185,720	D 3.60
Den. & R. Gr.	5,771,014	6,166,260	6,901,727	7,456,223	Sep. ..	659,557	‡1.39
Erie	12,818,326	12,582,630	14,129,797	15,747,788	Sep. ..	1,004,910	D0.73
Iowa Central .	425,135	460,217	774,848	1,070,689	Sep. ..	113,857	4.00
Kan. City So.	1,750,887	1,652,150	1,869,581	3,560,964	Aug. ..	335,351	6.08
*Mex. Cent....	4,178,452	4,118,175	4,287,862	4,633,009	Sep. ..	398,854	0.40
Minn. & St. L.	1,049,264	1,130,381	1,417,468	1,493,162	Sep. ..	143,673	7.00
Mo. K. & Tex.	4,768,885	5,103,375	5,744,600	8,508,509	Sep. ..	860,652	7.40
St. L. So. W..	2,053,375	2,422,663	2,041,942	3,357,032	Sep. ..	328,348	7.50
Sea. Air Line..	3,177,596	4,119,194	4,085,656	3,479,899	Aug. ..	296,480	2.00
South. Ry. ...	11,994,310	13,062,594	13,868,300	11,958,712	Sep. ..	1,179,112	D0.01
Wabash	4,589,959	4,193,156	6,021,583	7,927,326	Sep. ..	848.474	D4.50
W. & Lake E.	892,938	773,240	1,369,046	1,771,920	Aug. ..	197,291	2.50

* Figures are in U. S. Currency. ‡Deduction made for Renewal Fund. D Deficit. §Without deduction for betterments. †After operating expenses and taxes.

Dividend Reduction.

One of the most persistent bear arguments at present is the danger of dividend reductions. This argument, so far as stock prices are concerned, is not borne out by history. Taking our last three periods of depression, for example, we find that stock prices declined before earnings and dividends fell off and recovered materially while the retrenchment was in progress. In 1884 the average low prices of stocks was established in December of that year and in October, 1885, had recovered 45% in the face of a halt in earnings and a material reduction in dividends. The years 1893 and 1903 are given in more detail below.

Stock	Low	1893	High	1894	% Adv.	Low	1903	High	1904	Adv.%
B. & O.	54½	July..	81½	Apl.	.. 50%	71⅝	Sept.	.105¼	Dec..	48%
Cent. of N. J.	84	July..	117¾	Mch.	.. 40%	153	Oct.	..194¾	Nov..	27%
C. M. & St. P.	46⅜	July..	67⅜	Sept.	. 46%	133¼	Aug	..177⅝	Dec..	33%
Chic. & N. W.	84⅞	July..	110⅜	June	.. 30%	153	Aug	..214½	Dec..	39%
Ill. Cent......	86	July..	85¼	Sept.	. 10%	125⅛	July	..159	Dec..	27%
L. & N.......	39¾	Dec...	57⅜	Sept.	. 42%	95	Sept.	.148¾	Dec..	57%
Mo. Pac......	16½	July..	32½	Apl.	..100%	85¾	Aug	..111½	Dec..	30%
N. Y. Cent..	92	July..	102½	Aug	.. 11%	112⅝	July	..145½	Dec..	29%
Reading	12	July..	23⅜	Mch.	.. 91%	37½	Nov	.. 82⅝	Dec..	121%
Union Pacific.	15¼	July..	22¼	Mch.	.. 47%	65¾	Aug	..117	Nov..	77%
		Average advance, 46.70%					Average advance, 48.80%			

The gross and net traffic earnings for all railroads in the United States, during our last three periods of depression, may be considered in connection with the above table. They were as follows:

DEPRESSION OF 1884.

Year.	Gross Traffic Earnings.	Net Traffic Earnings.	Dividends Paid.
1883........	$823,772,924	$298,367,285	$102,052,548
1884........	763,306,608	266,513,911	93,203,835
1885........	765,310,419	266,488,993	77,672,105

DEPRESSION OF 1893.

Year.	Gross Traffic Earnings.	Net Traffic Earnings.	Dividends Paid.
1892........	$1,169,036,840	$352,817,405	$93,862,412
1893........	1,207,106,026	358,648,918	94,295,815
1894........	1,066,943,358	317,757,399	83,478,669

DEPRESSION OF 1903.

Year.	Gross Traffic Earnings.	Net Traffic Earnings.	Dividends Paid.
1902........	$1,726,380,267	$610,131,520	$185,391,755
1903........	1,900,846,907	643,308,055	196,726,176
1904........	1,975,174,091	636,277,838	221,941,049

In explanation of these compilations it may be pointed out

1—That the ten railroads given in the first table are fairly representative of the entire list.

2—That the greatest falling off in net earnings came in the year *after* lowest stock prices were established.

3—That material dividend reductions took place in 1885 and 1894 while the stock market was making a recovery of 45% to 50%.

4—That in the year following each of those last given, that is to say, 1886, 1895 and 1905, both earnings and dividends increased.

Several interesting things will be observed in these tables, the two principal points being that neither earnings nor dividends shrink so much in panic periods as is popularly supposed and that the stock market advances while the actual recession and curtailment is under way. The concrete object sought is to show that under our present circumstances we may expect an improvement in security prices even if our worst fears in regard to earnings and dividends are realized. This view is supported not only by analogy but by logic. The logical cause is the appreciation and discounting of trouble by the men who make prices far in advance of the appearance of such trouble. Even the tyro at speculation will acknowledge that the bright minds of Wall Street discount everything, but when we stand face to face with the falling off of earnings; the closing of mills; the reduction of dividends; a few receiverships, and a thousand rumors, it is pretty hard to apply the doctrines which we accept so readily in calmer moments. The great basic truth is there, however,

even though it be contorted to our frightened vision or buried from sight beneath a mass of rubbish.

I do not think there is any one thing so important to the speculator or investor as an intelligent assimilation and a thorough appreciation of this matter of anteriority in security prices.

The General Situation.

It is practically impossible at present to gain any light as to the immediate movements of stocks except through analogy and deduction. The facilities for concealment are so great among large interests and their openly expressed views are capable of so many constructions that it is idle to base ideas on either their apparent action or their utterances. A mouthpiece of the greatest financial interest in the United States has recently been predicting further depression and curtailment. His remarks are generally accepted as a bearish opinion on stocks. But not so. He is perfectly safe in predicting further retrenchment, but we have only to refer to the figures given above to see that this does *not* mean a further decline in security prices. If, later on, the stock market advances and the utterances of the gentleman in question are challenged, he can say truthfully that he said nothing about stock prices. It is practically certain that if such prophets were pinned down to the issue they would say that they could not pretend to forecast the action of Wall Street. This element will not talk optimistically while they are buying securities. It is not reasonable to suppose they would. In every line of business from horse-trading to the accumulation of a railroad, men belittle the value of what they wish to buy and enlarge upon the value of what they wish to sell.

We also hear a great deal at present about the two great interests in the street being at swords points. It is dangerous to place too much credence in these stories and theories. We hear that "Standard Oil" is hard hit, but how many times have we seen these men who were popularly supposed to be hard hit, bob up serenely a year or two later with about twice as much money as they had before. It is far more reasonable to assume that such interests, wise, farseeing, schooled in every trick and art of finance, disposed of holdings a year ago, husbanded their resources and by just that husbanding or hoarding or whatever we please to call it, brought about the last few points of this decline and were enabled to create through those resources a market which would enable them to recover all their properties at an enormous profit. I do not say that this theory is correct, but it may be set down as a fact that the two interests mentioned *could* have effected a currency famine and made these enormous profits by purchasing securities far below values. Whether or not they are patriotic and conscientious enough to pass such an opportunity by is a matter for consideration.

In looking at the probable future of stock prices we may weigh the conditions and influences which now obtain, thus:

We are facing a period of almost certain recession in earnings and general business. This is fundamentally a bearish factor, but it has been discounted in stock prices.

There has been widespread liquidation of weak accounts. Over-optimistic individuals have been forced out of office and supplanted by more conservative men. This is a bull factor. If we replace a rotten stone in our foundation with a sound one the structure is more solid.

The buyers of stocks at this level are small investors and great interests. The sellers are professional bears, frightened and unfortunate people who have not the means to carry their stocks.

The consensus of opinion of men who are usually right favors purchases. In almost all cases these same students have been arrayed on the other side of the market for a year or more. There are more individuals, a hundred to one, who are bearish, but they belong to the party which was bullish a year ago. In other words, they represent that great majority which is always wrong.

The reason for our great decline in prices since January was basic and well founded, but it has been carried too far. Just as stocks went too high they have gone too low. The last few points decline represents artificial, not genuine, causes.

The Technical Situation.

At least 75% of the daily operations are for short account. This is not confined to the Stock Exchange proper, but on the Consolidated Exchange nine operators out of ten are bearish. I mention this because it is not so easy to conceal operations on the little board as on the Stock Exchange. This short interest may be attacked at any time and when it is attacked it will be found very vulnerable. It also acts as a sustaining factor in the event of forced liquidation as while the professionals will attempt to cut prices from under sellers when stocks are offered they will begin covering as soon as profits appear.

In order to get the best results from the movements of the next few months it is of primary importance that this technical situation should be carefully watched. As soon as lines are accumulated by certain interests there will be a drive at the shorts and I think this drive will surprise the people who say there is no possibility of a sharp upturn at present. It is probable that a close inspection of technical affairs on the next recovery will give us a fair idea when to look for a reaction. With this point in view I intend giving more attention to the character of the buying and selling every day.

Conclusion.

The present market is one of accumulation and culminating declines. In spite of rumors, bad news, decreased earnings and much necessary liquidation, average prices have not declined two points

since October 24. The stocks which have been sold under all these adverse influences have been absorbed in a narrow range. If the reader will piece together carefully the facts and figures set forth in this letter and reflect upon them he will probably see that the leading elements have been fairly stated, and he has only to brush aside nervousness and intimidation in order to accept *prima facie* evidence of the approximate bottom of a cycle of prices.

The opportunities offered are great, they are being accepted by a few and ignored or contested my many.

I advise purchases of stocks, particularly the dividend-paying rails.

WEEKLY LETTER.

November 30, 1907.

As the figures recently given at different times in these advices showing the action of stock prices after panic or depression appear to be particularly interesting at present, I will produce them more in detail this week. The periods chosen for illustration are the crises of 1873, 1884, 1893 and 1903. It is not probable that the period last named can be rightly called a crisis or a panic, but, as stock quotations underwent violent fluctuations, it will be added.

In the period of 1873-4 we find the following movements, choosing for illustration five of the active securities of that epoch which may be considered fairly representative of the entire list.

CRISIS OF 1873.

	Jan., 1873.		Nov., 1873.		Dec., 1873.		Jan., 1874.		Feb., 1874.	
Stock.	High.	Low.	High.	Low.	High.	Low.	High.	Low.	High.	Low.
Chic. & Alton	115	112½	95	85	102¾	99	110	103	115	106⅛
C. & N. W.	84	80½	50	31⅝	57⅝	47	62¼	57½	61⅜	56¼
Chic. & R. I.	114¾	109⅛	94½	63	100⅞	92	106	100⅞	109⅛	104½
Erie	66¾	58⅛	47	35⅝	47¾	42⅝	51¼	46¾	50⅛	46¾
Un. Pac.	39½	34	26½	14¾	32⅞	24¾	35⅝	30⅜	35⅞	34

It will be observed that from January to November, 1873, stock prices fell an average of about 50%, and that in three months a great recovery occurred. Low prices were made in November, 1873, in almost all stocks.

CRISIS OF 1884.

	Jan., 1884.		June, 1884.		Aug., 1884.		Dec., 1884.		Apl., 1885.		Oct., 1885.	
Stock.	High.	Low.	High.	Low.	High.	Low.	High.	Low.	High.	Low.	High.	Low.
C. & N. W.	118⅞	112¾	103	81½	106⅞	98⅝	92½	82¾	98¾	94	111¼	98½
R. I.	118	115⅝	113¾	100¼	117½	112½	111¾	104	115½	112	125	118¼
L. S.	99⅛	93⅛	88	67⅜	88⅜	78⅜	69⅝	59½	60¾	58¼	83¾	73¼
N. Y. C.	115⅝	110⅞	108⅝	94¼	112	102¾	92⅝	83¾	91	88½	100¼	95½
Un. Pac.	78⅞	69½	47	28	57¼	41¾	52	44⅜	49¾	41½	55⅝	48⅞

The period covered in the above table is calculated to exhibit *two* declines and recoveries of considerable magnitude which occurred in less than two years. The so-called panic of 1884 occurred on May 14, and lowest prices were reached June 27. After the recovery there was a relapse and sagging prices from September until December. There followed a steady market until April and May,

then the great advance began. In commenting on the action of stock prices in 1885 the *Financial Chronicle* in its annual review said:

"The year 1885 was one of the most remarkable in the stock market that has ever been known. It was one of those years when immense fortunes could be made with a merely nominal capital."

CRISIS OF 1893.

(Five active stocks.)

	Jan., 1893.		July, 1893.		Aug., 1893.		Sept., 1893.		Oct., 1893.	
Stock.	High.	Low.	High.	Low.	High.	Low.	High.	Low.	High.	Low.
B. & O.	97⅞	93½	73⅛	54½	68⅝	58¾	70½	66	77⅝	65¾
St. Paul	83½	76⅛	69½	46⅜	58½	50¼	63	56½	68¾	66½
C. & N. W.	115¼	111⅜	105½	84⅞	99¾	90¼	101¾	96⅛	107¼	98½
L. & N.	77⅜	71⅜	66¼	47½	58½	52	58½	49	53	43⅜
Union Pacific ...	42⅝	39	26¾	15¼	22¾	15¼	24¾	19⅝	21	15⅝

CRISIS OF 1903.

(Five active stocks.)

	Jan., 1903.		Sept., 1903.		Dec., 1903.		Jan., 1904.		Dec., 1904.	
Stock.	High.	Low.	High.	Low.	High.	Low.	High.	Low.	High.	Low.
B. & O.	104	100	83⅜	71⅝	80⅞	76½	85⅞	76½	105¼	94¾
St. Paul	183¼	176⅜	143¾	135¼	147⅝	138⅞	148¼	140¾	177⅝	164
L. & N.	130½	123¾	106⅞	95	110½	105⅛	111½	106	148¾	135
Reading	69¼	59⅞	55½	43⅛	47¼	40¾	48	43⅜	82⅝	73⅜
Union Pacific ...	104⅝	100⅜	76¾	67½	81	74¼	82⅛	76½	116½	104½

I have added to the 1903 table the prices in the last month of 1904 to show what *can* happen in the year next following a depression.

In compiling these tables no attempt has been made to pick out certain stocks, the object being to choose the high-priced common shares most in the public eye during the period consulted. It has been my expressed opinion for some time that rallies of importance could and generally did occur soon after panics or depression. There is a widespread idea that after such an experience as we have recently had, nothing can be expected but stagnation. It is difficult to imagine, in the face of such figures as those produced above, what can be the cause of this popular view unless it arises from confounding general business with stock prices and arguing that the two must move homogeneously, which in point of fact, they never do.

Another pertinent point stands out in bold relief in these compilations. It is the importance, nay, the necessity, of an intelligent choice of securities. Take for example, the table for 1893. From the low points of July to the high points of October, we find that B. & O. advanced 22⅞ points; St. Paul, 22⅜; C. & N. W., 22⅜; L. & N., 5½, and Union Pacific, 5¾. This discrepancy is not covered by reducing the matter to percentages. B. & O. advanced 42%; St. Paul, 48%; C. & N. W., 27%; L. & N., 10%, and Union Pacific, 30%. We would have made five times as much money on a given capital in the same period on St. Paul as on L. & N. The marginal operator would have suffered even more from incorrect selection of securities, for he measures his transactions largely by "points" and puts about as much margin on a stock selling at 50 as one selling at 100.

The study of individual values and prospects as determined by management, physical condition, territorial conditions; the scaling down of operating expenses, etc., is now a matter of serious consequence and should be accorded first place in forming plans for the future.

There is one point which is apparently given no consideration at present. While we are worrying about the inability of railroads to borrow money for new construction why not give attention to the fact that this means larger and surer returns for existent properties and consequently more stability for the stock issues now outstanding. The increase of per capita railroad construction practically came to a standstill twenty years ago. Thus:

Year.	Miles of Railroad.	Population of U. S.	Population per Mile.
1830	23	12,866,020	559,392
1840	2,818	17,069,453	6,057
1850	9,021	23,191,876	2,570
1860	30,826	31,443,321	1,020
1870	52,922	38,558,370	728
1880	93,262	50,155,783	538
1890	166,654	62,622,250	376
1900	194,262	76,303,387	393
1906	223,000	84,154,009	377

When we look at the fact that development of territory; improvements in methods and machinery, etc., allow one man to produce what two men produced a few years ago and that per capita wealth has increased from $850 in 1880 to $1,310 in 1906; that farm products have almost doubled and that our exports of merchandise have more than doubled in that period, we can appreciate Mr. J. J. Hill's statement that we need to spend $1,000,000,000 a year for five years in new railroad construction. It may be contended that these new roads must eventually be built, but when money gets easy enough to permit of such construction, the stock market will not need much stimulating.

The man who has a hotel which is constantly crowded to its full capacity and who cannot extend his facilities, may be losing money in a negative but not in a positive way.

The General Situation.

There is pronounced improvement in the general situation. Money affairs are rapidly returning to a normal basis and we may safely figure that the crisis is past. General business, paralyzed for a brief term, shows signs of early and healthy resumption. A number of inquiries recently sent from this office to reliable correspondents in the West and South lead to the belief that really fundamental troubles have been grossly exaggerated. The attempts of certain Southern Solons to legislate railroads out of existence have been checked by a higher power, and the Government finds it unnecessary

to issue all, or even half, of the 3% notes. In short, it is becoming apparent that while basic conditions brought about the first two-thirds of the decline of 1907, artificial conditions were responsible for the last ten points recession. The trouble has been that we tried to make a dollar do too much work and the dollar got tired and laid down. A little rest and reinforcement will put it, metaphorically speaking, on its feet again. Our present "panic" differs from almost all other affairs of a similar character in that it was only in a small degree occasioned by industrial causes.

The Technical Situation.

There is a popular idea that every time a two-point advance occurs it is occasioned wholly by "short covering." It never seems to occur to the exponents of this theory that anyone ever buys anything except to cover shorts, or that the confident bears might increase rather than decrease holdings on a rally. In a recent daily letter I called attention to the fact that every point up now strengthens the weaker bulls who have barely escaped with their lives and in inverse ratio, weakens the bears. There is no apparent lack of confidence in Bruin's camp, and loaning rates still reflect a large shortage in certain stocks. I do not think the technical situation has been weakened by the small advance in the last few days.

There is also an opinion that advances will be met by further liquidation. Certainly they will. It was never otherwise. But if the liquidation is small in volume, the buying power of both bulls and bears might soak it up quickly. I do not think the residue of forced liquidation is great enough to do more than cause a temporary halt or flurry.

Conclusion.

I do not change my opinion that our next important movement in stocks will be upwards. Give preference to the dividend-paying rails for the present, as money will seek such stocks first. Reading, Pennsylvania, Atchison, Union Pacific, Great Northern and Northern Pacific are all well taken on little dips. In the industrials Steel Common is well absorbed, but in a very quiet way. There is a large short interest in this stock.

I do not think that it is good policy to be in too great a hurry to take profits. There will, of course, be little declines now and then. They are a component part of every market and many traders fall into the visionary habit of looking at these setbacks after they are over and figuring what they could have done rather than what they would have done. The man who waits for fair turns will do better than the one who tries to milk the market dry. It will be time enough to decide to withdraw temporarily when we see the bears running to cover and the wiser bulls taking profits.

WEEKLY LETTER.

December 7, 1907.

A great deal of interest centers at present in the probable effect of dividend reductions on stock prices. As the probability or possibility of such reductions is now greater in industrial than in railroad shares, I will take two well-known instances of the passing of dividends in our last period of general business curtailment and compare the actual events with the course of stock prices. The two stocks referred to are U. S. Steel Common and Amalgamated Copper.

Sept., 1901, to Sept., 1903, 1% quarterly	Dec., 1903, ½% for quarter	March 1904, Dividend passed	Oct., 1906, 1%

The 1% paid in October, 1906, was at the rate of 2% per annum, ½% being credited to the quarter ending March 31, 1906, and ½% for the quarter ending June 30, 1906. Since then the rate has been maintained at 2% per annum.

The stock fluctuations were as follows:

HIGH AND LOW BY MONTHS, 1903.

Jan.	Feb.	Mar.	April	May
39, 36½	39⅞, 37⅛	38¾, 35⅛	36½, 33⅞	35⅝, 30½
June	July	Aug.	Sept.	Oct.
38⅜, 32⅜	31⅝, 21⅜	24¾, 20⅜	23⅜, 14⅞	18⅛, 12½
	Nov.	Dec.		
	13½, 10	12⅞, 10		

HIGH AND LOW BY MONTHS, 1904.

Jan.	Feb.	Mar.	April	May
12⅝, 9⅝	11¾, 10½	11⅞, 10½	12, 10½	10⅝, 8⅜
June	July	Aug.	Sept.	Oct.
10, 8¾	12⅞, 9¾	12⅞, 11⅜	18⅝, 12⅞	22¾, 19⅝
	Nov.	Dec.		
	32⅞, 19⅝	33⅛, 23½		

It will be observed that almost the entire evil had been discounted before reductions in the disbursement occurred. It was perfectly safe to buy the stock immediately upon the first reduction (Dec., 1903) and also upon the total elimination of the dividend in March, 1904. This may be most forcibly shown by stating that the purchaser at the average price of December, 1903, (11½) or at the average price in March, 1904, (11¼) would have seen his capital trebled in less than a year.

And this brings up the other side of the question—the resumption of payments. Dividends on Steel Common were resumed in October, 1906. The fluctuations before and after that date were as follows:

HIGH AND LOW BY MONTHS, JULY, 1906, to MARCH, 1907.

July, 1906	Aug., 1906	Sept., 1906	Oct., 1906	Nov., 1906
40, 32⅝	47¾, 39⅛	47¾, 43⅜	50¼, 45⅝	49⅛, 45½
Dec., 1906	Jan., 1907	Feb., 1907	Mar., 1907	
49⅜, 46⅜	50⅜, 42¾	46¾, 42⅞	44¾, 31½	

The figures given above bring out a fact that is startling to the uninitiated. They show that if we had *purchased* Steel Common as soon as dividends were *discontinued* altogether and *sold* the stock so purchased as soon as dividends were *resumed* we would have gained practically the maximum possible profit from bottom to top prices. This looks irrational, but not so. It is only a strong illustration and confirmation of the anteriority of stock prices. The unsophisticated trader *sold* his holdings of Steel Common when the dividends were cut, on the theory that the shares were non-productive and of little value, and he purchased when the dividends were resumed, on the reverse of this theory. He did not appreciate the vital necessity of considering future probabilities rather than present certainties.

To pass to Amalgamated. The dividends were as follows:

Oct., 1901	May, 1902	Feb. 1905	Aug., 1906	Feb., 1906
1½%	½%	½% & ½% extra	1¼%	1½%
May, 1906	Nov., 1906	Aug., 1907	Nov., 1907	
1½% & ¼% extra	1½% & ½% extra	2%	1%	

THE RANGE OF PRICES.

Mar., 1902	April, 1902	May, 1902	June, 1902	July, 1902
70½, 61	68½, 63½	71⅞, 65	69¾, 62¼	68¾, 62
Aug., 1902	Sept., 1902	Sept., 1906	Oct., 1906	
68⅜, 65	71½, 63⅞	115½, 108⅜	117½, 109½	
Nov., 1906	Dec., 1906	Jan., 1907		
114¾, 108⅞	115½, 110⅞	121⅞, 110⅜		
Feb., 1907	Mar., 1907	Nov., 1907		
115½, 108½	111⅛, 78½	52, 45¾		

Where no quarterly dividend is given in the table above the rate was continued as shown in previous figures. Thus the rate was ½% quarterly from May, 1902, to February, 1905.

This illustration is not so striking as in Steel Common, but it will be seen that for two months preceding and four months following the dividend reduction of May, 1902, Amalgamated offered fair opportunities for purchases on declines. It is true that the stock fell in 1903 to 35⅜, but this has nothing to do with the subject under discussion, which is the immediate effect of dividend reductions or increases. The decline of 1903 was not related to changes in disbursement, as there were no changes.

Following the course of the stock prices in 1906 we find that dividends reached their maximum rate in November of that year, at

which time we were within five or six points of the top. In November, 1907, the rate was cut in two, and so far, purchases on such action would show no loss.

Lest the instances given covering the periods consulted be considered not representative, I will point out the action of American Sugar, which was the leading industrial stock in 1893. The dividends on this stock were as follows:

DIVIDENDS QUARTERLY.

Oct., 1892	Apr., 1893	Apr., 1893. to Apr., 1900	Apr., 1900	Oct., 1900
2½%	3% & 10% extra	3%	1½%	1¾%

STOCK PRICES.

Oct.,1892	Jan.,1893	Feb.,1893	Mar.,1893	Apl.,1893	May,1893
114¼, 108⅜	132⅝, 111⅜	134¾, 111½	126⅞, 92½	107¾, 98½	99½, 62

Jan.,1900	Feb.,1900	Mar.,1900	Apl.,1900	May, 1900
137½, 112¼	118⅞, 101½	111¼, 95¼	121½, 101¼	120, 105⅛

June, 1900	July, 1900	Dec., 1900
119¾, 110¼	129⅝, 113¾	149, 122⅝

The stock could have been sold at the time of its maximum disbursement and purchased as soon as the rate was cut in two.

While the illustrations given are not picked or isolated, they do not reoresent an invariable rule. It does not always happen that we could safely buy after dividend reductions and sell after dividend increases. Nothing "always happens" in speculation. In a majority of cases, however, more money would have been made by buying stocks when they looked the most unpromising and selling when they looked the most promising, than by reversing the process. What I seek to establish in the foregoing compilations is that sales of stocks, because of a curtailment of dividends actual or prospective, or the purchase of stocks because of increased income return, is a method of operation not supported by precedent or logic.

When we have thoroughly assimilated the principle of basing operations in 1907 on probabilities in 1908 we will at least have learned the correct definition of the word "speculation." I speak of this quite freauently, but that is because it is the most important and at the same time the most disregarded factor in the game.

We are now in a period where I think considerable attention should be given to rotation in stock movements. This, of course, is largely a technical factor and not so important as a study of basic facts and an intelligent examination of individual stocks, but from a speculative standpoint it is worth noting. I called attention to this principle in a book published last year, from which I will take the libertv of quoting briefly.

"The beginning of a bull period is almost always marked by the bidding up of a single stock, and is followed by the picking up of one stock after another until the entire list of values has been materially advanced. There is a hazy public idea that a bull movement is accomplished by a general advance which extends to all active securities. This is not shown by any precedent, but on the other hand the *culmination* of a bull market is marked by just such a general advance. This may be explained by the statement that the genuine and intermediate advance from low prices to the approximate top is more or less assisted and engineered by the inside factors, who, however well fortified in organization and funds, would not be guilty of endangering themselves (a la public) by attempting too much at once. These interests, therefore, concentrate efforts and capital, and lift their stocks one at a time, probably returning to the first security in time, and again furthering their favorites in rotation."

An advancing market, particularly in its incipient stages after a long decline, differs in this regard from a bear market, which crumbles all along the line. It is my opinion, therefore, that stocks which hang fire or even decline in strong sessions should not now be discriminated against merely on the ground that they do not "act right." There are stages of the market where such reversal of the general trend is suggestive and ominous, but we are not in one of those periods at present. Appearances which are more or less dependable under certain circumstances have a reversed meaning under changed technical conditions.

The General Situation.

The general situation has improved materially during the week. The West and South give every evidence of early restoration of normal monetary conditions. Chicago is practically on a cash basis now and our local premium on currency represents only small emergency transactions at a low rate. Many of the ultra-conservative banks are carrying reserves far in excess of normal necessities, and as confidence in banking institutions returns these redundant funds will quickly seek the ordinary channels. That we must witness some further decline in general business is certain, but it has already been pointed out in these advices that the stock market has anticipated and, in many cases, over-discounted such a recession. It is my opinion that the probable falling off in net earnings of railroads in the near future is much overestimated. In my letter of February 2, I stated that it was "as certain as death" that net earnings would fall off inside of a year. The statement appeared to many observers unwarranted at that time. Now this same element is convinced that earnings are going to pot entirely. But we have big crops to move, our exports continue large, the farmers are in good shape and labor and material are declining in price. The high prices of labor and material have been responsible for more damage to

net earnings than has any other element. We know very well that every business is subjected to its ups and downs; that it has its lean months and its fat months and that these things must be provided for and looked upon calmly. But when cost of producing transportation goes steadily upward with no increase in the selling price there is something to worry about, and we may be sure the producers welcome even drastic temporary reversals which will check this eating away of the margin of profit. It is my opinion that the ratio of operating expenses to net earnings will steadily decrease from now on.

The Technical Situation.

In the advance of the last week there was little short covering until the last half of the Thursday session. Several fair-sized lines were retired Thursday afternoon, and while this action weakened the technical situation somewhat, there is still a very large outstanding short interest. It may be further pointed out that the retirements mentioned above were made by large operators who are afraid to be stubborn and who must have changed their position because they thought stocks were going higher. Whether or not their views were correct remains to be seen, but personally, I would accord them more respect than would be given to the traders who get wrong, grit their tetth, and stay wrong until they are busted.

The technical situation is slightly weakened at the close of the week, but is still strong. Steel common and Pennsylvania are heavily oversold, and may be sharply advanced at any time.

Conclusion.

I think the very best policy at present is to buy on all reactions. Favor particularly the dividend paying rails. But in view of the material advances in some quarters, it may be well for active traders to accept profits in stocks which have so advanced and pick up dormant shares on the theory of rotation suggested above. Pennsylvania, Atchison, Great Northern, Northern Pacific, Union Pacific and Reading are the natural leaders of the present movement, and are all worth more than they are selling for, even under present conditions. Reading is particularly low in price, considering its coal holdings, and could as easily pay 6% or 7% as its present rate. Lehigh Valley is also an excellent proposition, earning almost 20%. Chesapeake and Ohio and M., K. & T. are the best of the low-priced stocks, and the Steels, preferred and common, are bargains in the industrials.

While I continue to recommend purchase for the present, it must be said that this view may be abruptly, though temporarily, abandoned at any time that technical conditions or the extent of recovery warrants such a reversal. I shall make no attempt

whatever to judge the general set-backs of two or three points. Every man must be his own guide and fortune teller as to such fluctuations. They are a component part of all markets, good or bad, and one man's guess is as good as another's as to just when reactions will appear and just how far they will go. We may, however, forecast the possibility of a good round turn with some degree of accuracy. At present there are no indications of such a reversal, either from a technical or a statistical point of view.

WEEKLY LETTER.

December 14, 1907.

In order to gain, so far as is possible by analogy, an idea as to the duration of money stringency in periods of stress, we may examine the periods of 1884, 1893 and 1903. It is also interesting to note in connection with the fluctuations of money, the relation of loans to deposits and the percentage of reserves in New York banks.

In 1884, the panic occurred on May 14. The movements of money for the year were as follows:

1884.

	Call Loans.	2 to 4 Months.	Loans.	Deposits.	% Reserves.
Jan.	1 - 3	4 -6	$333,989,200	$349,894,100	30.56
Feb.	1 - 3	4 -5½	344,523,800	361,380,200	30.46
Mar.	1 - 2½	4 -5¼	346,293,700	346,709,800	27.22
Apr.	1½- 3½	4 -5½	343,355,500	335,684,000	25.72
May	1 - 8(a)	4 -6(b)	309,648,800	288,361,300	22.77
June	1 -18	5½-6	293,450,500	286,158,300	29.58
July	1 - 6	5½-6½	289,759,200	305,757,500	34.98
Aug.	1 - 3½	5 -6½	287,893,200	304,152,100	35.22
Sept.	1 - 3	5 -6	291,126,700	305,146,300	34.15
Oct.	½- 4	5 -6	291,683,400	315,732,600	34.97
Nov.	½- 3	4½-6	285,514,600	325,825,300	39.97
Dec.	½- 3	4½-5½	295,872,200	335,272,100	37.21

(a) May 16 to 18, Call money loaned at 6% and 1½ to 3% per day extra.

(b) Rates for time money in May are merely nominal. It could not be borrowed at all at times.

Note.—Bank figures are for the last week of each month.

The money movements of 1884 are misleading to some extent. The condition of that year was one of stagnation. The continued coinage of silver shook confidence in the stability of our currency everywhere.

In 1893 the panic occurred on July 26. Money movements were as follows:

1893.

	Call Loans.	2 to 4 Months.	Loans.	Deposits.	% Reserves.
Jan.	1 - 7	4½- 6	$455,179,900	$488,779,600	27.93
Feb.	1 -12	4¼- 6	458,570,900	472,708,100	26.98
Mar.	1½-60	5½- 8	434,468,300	439,504,400	27.10
Apr.	3 -15	5½- 9	425,990,800	432,224,600	27.81
May	1 -40	6 -10	415,901,600	436,724,700	30.82
June	2 -74	6 -15	405,986,100	398,064,100	26.37
July	2 -72	8 -12	406,486,200	382,188,100	23,87
Aug.	2 -51	8 -15	411,345,700	372,203,500	20.55
Sept.	2 - 7	7½-18	392,494,400	390,980,400	31.16
Oct.	1 - 3	5¼- 8	397,324,800	433,261,700	36.26
Nov.	1 - 2	4 - 6	405,201,700	475,311,700	39.90
Dec.	¾- 1½	3½- 4½	417,606,900	506,437,800	40.95

The year 1903 shows little disturbance in money. While loans exceeded deposits during ten months of the year, reserves were high and remarkably uniform.

1903.

	Call Loans.	2 to 4 Months.	Loans.	Deposits.	% Reserves.
Jan.	2½-15	4½-6	$904,510,700	$931,778,900	27.98
Feb.	2 - 4	4 -5	950,156,300	956,206,400	25.61
Mar.	2½- 8	5 -6	904,599,200	894,260,000	25.68
Apr.	2 -15	5 -5¾	906,625,100	887,603,300	26.23
May	1½- 3	3¾-4½	922,975,900	913,081,800	26.06
June	1½- 4	3½-5½	913,746,900	903,719,800	26.42
July	1 -10	3½-6	907,899,700	902,376,800	27.08
Aug.	1 - 3½	5 -5½	923,111,500	920,123,900	27.23
Sept.	1½- 3	4½-6	917.047,700	901,345,200	26.60
Oct.	1½- 5	4½-6	911,508,500	885,616,600	26.16
Nov.	2 - 9	5 -6	880,839,700	841,552,000	25.71
Dec.	3 - 9	4½-6	892,262,800	865,918,700	26.45

The figures for 1907 are as follows:

1907.

	Call Money.	2 to 4 Months.	Loans.	Deposits.	% Reserves.
Jan. ...	2 -45	5¾-6½	$1,063,957,300	$1,042,434,400	26.7
Feb. ...	1¾- 5½	5¾-6¼	1,083,460,400	1,045,021,700	25.4
Mar. ..	2 - 7	5¾-6½	1,056,545,200	1,019,817,300	27.2
Apr. ..	1 - 4½	5½-6½	1,123,417,600	1,106,183,300	26.1
May ..	1½- 4	5½-6	1,126,389,500	1,126,640,500	26.3
June ..	1¼-12	5½-6	1,126,539,100	1,092,031,700	25.2
July ...	2¼-16	5½-6	1,123,163,700	1,095,772,900	25.8
Aug. ..	1¾- 6	6 -7	1,087,985,400	1,046,655,800	25.8
Sept. ..	1 - 6	6½-7	1,100,351,500	1,055,193,700	25.5
Oct. ...	3 -75	7 -8	1,087,711,000	1,023,722,000	24.8
Nov. ..	3 -15	7 -8	1,198,078,500	1,083,283,300	21.5
Dec. 7.	3 -13	7 -7½	1,186,395,600	1,074,851,400	20.7

In 1884 the stringency lasted about four months, and in 1893 about six months. In 1903 there was no acute stringency of long duration. In 1893, during July and August, time money rates were nominal and the same may be said of November and December and part of October, 1907. The principal point of interest is that when money rates do begin to clear up the improvement is very rapid. Deposits and reserves rise quickly and loans as well as interest rates fall. The interest rates on Call money are the first to feel the effects and money for speculative ventures is obtainable at very low rates before other funds are offered freely.

From a viewpoint of similarity in money conditions, 1893 offers the best comparison with the present time. Clearing house certificates were issued on July 29 and eventually reached the total of $62,165,000 and the last of these was cancelled on October 30. The premium on currency endured only about a month, but at times reached 5%.

While there are many points of resemblance between the money affairs of 1893 and 1907, the basic factors are much better to-day than in the former year. It has already been pointed out in a former letter that 1893 was a year of crop failures, with low prices for products and also a debit year in our foreign trade. There was also the factor of silver inflation. Our fundamentals are much sounder to-day than in any former period of depression.

It is probable that money conditions will continue bad during the remainder of this month. There is a great deal of hoarding on the part of country bankers. One institution in Indianapolis has recently used its 62% reserve as an advertisement. City banks are also inclined to keep as much cash as possible and as their present reserves are generally below the legal limit, there is still some scattered forced selling of collateral in maturing loans. This would be quickly absorbed with little effect on stock prices were it not for the fact that the larger buyers of stocks to-day are inclined to allow the very large bear contingent to go as far as they please and offer little support in any quarter. This apathy on the part of buyers and activity on the part of sellers brings about sharp declines even when the buying is much better than the selling. There is one thing certain, however: the continued and reckless selling of other people's property by that element which never sees the bottom results in a technical situation which not only acts as a sustaining power now but which will end in a drastic and prolonged advance. The stocks which are being purchased are largely for investment and are gradually removed from the market while a large portion of the selling represents nothing but betting on ruin and disaster.

The General Situation.

There is every indication of a change for the better immediately after the turn of the year. The showing of the Bank of England is such as to warrant a reduction of the rate at once, but it is probable

that this will be deferred until our own money conditions show some outward sign of improvement. After the State bank call has been made money will soon become easier as many institutions will hang on to funds in order to make a good showing. The West must soon begin pouring cash into New York. The decreased activity in Western business and the abnormally large reserves held there will soon force large shipments to this center. There is little to fear from the January disbursement necessities as most of them have already been provided for. The chief bearish influence at present is the rumor mill, which grinds out a daily grist of news, almost all of which can be traced directly to the camp of the exponents of lower prices. The real and genuine crux of the whole matter now is money. It is true that there has been a heavy falling off in trade, but much of this depression is caused by lack of funds, not by industrial troubles. That portion of the falling off which was warranted by influences other than financial has long ago been discounted and over-discounted in stock prices and we may be reasonably sure that money affairs will soon be normal and that this will be reflected in a speedy resumption in many lines of business and a more speedy readjustment of stock prices.

The Technical Situation.

The technical situation is stronger this week than last. There has been a steady increase of short lines in many prominent securities. About the only support which appears is of an automatic character, that is to say, it consists of resting orders below the market. There are some very large scale orders in the rails from important interests. Aside from this buying there is some day to day small-lot investment, but it is not large in volume. A great many small operators who would like to take advantage of the present low prices are not able to obtain necessary funds on deposit with savings banks and the volume of this trading is somewhat restricted.

The technical situation is very good.

Conclusion.

It is seldom that a more perplexing situation as to the immediate future presents itself. The developments of the week in money have not been entirely satisfactory or natural. There is a suspicion in some quarters that some of our great bankers are calling loans and purchasing the same shares which they have forced upon the market. This is particularly true of maturing time loans. I think the suspicion is, in some cases, well grounded.

The principal point to be considered during the next week or two is the selection of securities. The dividend-paying rails offer the greatest inducements. They are far below values and are kept down by factors which must soon vanish. Reading is being accumulated by very strong interests and probably offers the best speculative opportunity on the list. It may be confidently purchased

on breaks and should be held for a large profit. The resting support in the stock is at present around 88 and 89, but the stock is accepted by good people whenever offered. Pennsylvania is in an excellent physical and financial condition and should sell much higher. Atchison is very cheap at present prices although the accounts of the road have been somewhat juggled. In the low-priced rails Chesapeake & Ohio is the most attractive. In the industrials Steel stocks are in an impregnable position. There will, no doubt, be some dividend cutting in some of the industrials, particularly the Copper shares, but such reductions should not materially affect prices.

Indications will be much clearer after the turn of the year. At present, the only thing to do is to stick to the long side of the rails. The outcome is certain, they will not sell much lower under any circumstances and they will certainly reach much higher prices before long. The basis of our business and our prosperity is much sounder than in any panic period in history and our security prices, considering assets and income return, are lower than in twenty-five years.

WEEKLY LETTER.

December 21, 1907.

The Government figures for our foreign trade for November are particularly interesting as an exhibit of the solidity of fundamental factors at present. It should be quite a shock to the pessimists who have been wondering how in the world we were ever going to pay back the gold recently drawn from Europe when they observe that our credit balance for November alone almost cancels this item. The month of November and eleven months of the calendar year for a series of years, show as follows:

EXCESS OF EXPORTS OVER IMPORTS.

Year.	November.	Eleven months.
1900	$71,348,284	$571,603,735
1901	63,889,332	627,943,682
1902	39,814,448	337,733,647
1903	83,262,228	392,207,824
1904	62,898,485	366,723,050
1905	72,043,607	349,250,524
1906	62,889,342	421,691,645
1907	93,655,751	385,405,539

The government's figures for fiscal years ending June 30, during panic periods, are as follows:

Year.	Exports.	Foreign (re-exports)	Imports.	Debit.	Credit.
1872	428,487,131	15,690,455	626,595,077	182,417,491	
1873	505,033,439	17,446,483	642,136,610	119,656,288	
1874	569,433,431	16,849,819	567,406,342		18,876,698

Year.	Exports.	Foreign (re-exports)	Imports.	.Debit.	Credit
1883..	804,223,632	19,615,770	723,180,914		100,658,488
1884..	724,964,852	15,548,757	667,697,693		72,815,916
1885..	726,682,946	15,506,809	577,527,329		164,662,426
1892..	1,015,732,011	14,546,137	827,402,462		202,875,686
1893..	831,030,785	16,634,409	866,400,922	18,735,723	
1894..	869,204,937	22,935,635	654,994,622		237,145,950
1902..	1,355,481,861	26,237,540	903,320,948		478,398,453
1903..	1,392,231,302	27,910,377	1,025,719,237		394,422,442
1904..	1,435,179,017	25,648,254	991,087,371		469,739,900
1906..	1,717,953,382	25,911,118	1,226,563,843		517,300,657
1907..	1,381,719,000		903,321,000		478,398,000

The principal point of interest in the above table is the debit item in 1893. Since 1875 there have been but three years when the balance of trade was against us, i. e., 1888, 1889 and 1893. This is one evidence of the fallacy of the persistent comparisons with 1893 which are so fashionable at present. It has been already pointed out in these advices that there are few real parallels between 1893 and 1907. Most important of all is the fact that in the former year the farming community was bankrupt while they are now rich and prosperous. In fact, the year 1893 could much more intelligently be employed as a *contrast* than a comparison with 1907. That we have recently overloaded our stomachs, is true enough, but the malady is not organic and recuperation will be rapid. The fruits of economy are already shown in our falling off in imports while on the other hand, the continued large exports show our basic strength.

It is probable that the old cry of over-capitalization and watered stock has been more frequently heard during the last six months than has any other bear utterance except possibly the accusations of graft and dishonesty. In this latter regard it may be pointed out that while such dishonesty has existed in certain quarters, it is rash to assume that it exists everywhere. It is also probable that the worst spots have been uncovered and eliminated and that other grafters have been frightened into changing their methods. In regard to over-capitalization, the opinion held by conservative students is that our railroads are, if anything, under-capitalized. In a recent article the *Financial Chronicle* gives interesting figures comparing capitalization of American railways with those of other countries. The salient statistics are as follows:

NET CAPITALIZATION OF RAILWAYS PER MILE.

United States.	Germany.	France.	Belgium.	England.
$54,421	$102,435	$133,871	$162,236	$273,438

The writer points out that allowing $100,000 per mile for difference in value of the right of way, which is the only feature of cost greater in Great Britain, American railways could be capitalized at $37,000,000,000 net instead of $11,671,940,000 as at present, in order to compare with English capitalization.

The conclusion reached by this writer and also by Mr. Slason Thompson of the Bureau of Railway News, is that "American roads, as a whole, are under-capitalized and that all the water that may at any time have been present in their stocks has been absorbed. 'Plowed back,' as the farmers say, into them from operating expenses and net earnings."

This is very interesting and also very important, especially when the present low level of prices is considered.

The General Situation.

The principal interest of the week has centered in possible dividend reductions. There were no reductions in the expected quarters, however, and several increases which were unexpected. The two per cent. extra dividends on Lake Shore and on Michigan Central and the extra one per cent. on the Pennsylvania Company, which is controlled by the Pennsylvania Railway, were in the nature of surprises. It is common talk that these three increases were made for the purpose of helping out New York Central and Pennsylvania dividends. There is no doubt some truth in this so far as New York Central is concerned, but the action of the Pennsylvania Company was not necessary to the maintenance of the regular rate on Pennsylvania. Just how far these extra disbursements were warranted remains to be seen. I do not think more than one or two further dividend reductions will be necessary. The possibilities in this line are always over-estimated. Even in the year 1894, following the disastrous events of 1893, there were only nine reductions in dividend rates on railroad stocks, and from 1893 to 1895 inclusive only sixteen reductions, which were offset by twelve increases. The ratio of operating expenses to earnings should soon show improvement and a clearing up of the money situation will set freight to moving rapidly.

The money situation continues to be the most unfavorable factor at present. There is every evidence that radical improvement is going on in the interior and the deficit in our reserves will soon melt away, but meanwhile the rates for call money and the premium on currency act as a damper and an obstacle to general speculation. The Clearing House certificates cannot be expected to disappear in any volume until the first or second week of January, but money may begin flowing to New York from the interior at any time. It is certain that much lower rates for money will be established inside of thirty days and meanwhile it will not be surprising if large interests, who have funds now and who probably have something to do with our strained money conditions, will see fit to establish a

higher level of prices *before* funds are plentiful and before the exponents of a "January rise" get to work.

As to the probable extent of general business depression, it is my opinion that improvement will be more rapid than is generally expected. I base this view on the ideas already dwelt upon that basic factors are healthy and that with the return of normal rates on money mercantile activity will be resumed. It is useless to talk about such activity with time money obtainable only at panic rates. It may also be pointed out that in case a healthy recovery begins early in 1908, the much talked of redundancy which would drive gold from the country would be eliminated. It is certain that very few people believe in even a gradual improvement in general business for some time, but it is also certain that very few people appreciate the difference between the fundamental causes of to-day's depression and the causes which obtained in the past. They base conclusions on false analogy. I think the evils of the present situation have been pretty well discounted in general business and over-discounted in stock prices. It is true there were causes for this decline which were genuine and I think I may say, without being misunderstood, that I was among the first to recognize and point out the dangerous elements, but now there are signs of improvement which are as well defined as were the signs of disaster. The serious problem of high prices for labor and material is solving itself at least temporarily, and, as already stated, the quick recognition of the necessity of economy is shown by the fact that our November exports were $22,000,000 greater than in the corresponding month last year, while imports shrunk by $9,000,000. It is noteworthy that a number of leading students of economics have recently expressed the belief that the present depression is to be short-lived while the exponents of the blue view confine themselves largely to unsupported statements or by trying to make parallels out of right angles. Straws show which way the wind blows in the commercial world as well as elsewhere and the fact that very large corporations, such as the United States Steel Corporation, the Standard Oil Company, etc., are going serenely on making arrangements for increased facilities is the best evidence of their belief in a resumption of business before long.

The Technical Situation.

The technical situation is very good and is constantly improving. In this statement I refer rather to the enduring technical position of shares than to the day to day shifting. Stocks are constantly being taken out of the market and locked up. The bulk of such holdings will not re-appear for a long time. It will be readily seen that the technical situation is helped more by the actual absorption of 100,000 shares than by the "turning over" of a million shares by traders. In the first instance a gradual scarcity of stocks is created; in the second instance, the stocks are merely shifted about from

hand to hand. It is estimated that in the last two months between 2,500,000 and 3,000,000 shares of stocks have been removed from the market by small investors. The general idea of the volume of floating shares is much exaggerated. In every prominent corporation there are holders of its securities in large quantities who never sell under any circumstances and almost invariably add to holdings when prices are very low. There is also another class of large holders who make only one turn in years. This class sold heavily a year ago and are re-purchasing now.

One of the strongest evidences of the sold-out condition of the present market is that since October 30, in spite of all the bad news, tight money and bear pressure, no decline has occurred in railroad stocks. The declining tendency in industrials was to be expected and was anticipated in these advices, but even in this group the buying is now better than the selling and declines have not been material enough to give much comfort to short sellers. The barometrical figures since October 31, show as follows:

	Price Oct. 31.	Highest since Oct. 31.	Lowest since Oct. 31.	Price Dec. 20.
Rails	67.96	72.86	65.61	70.87
Industrials	50.78	52.61	46.20	49.72

Not a very good showing for the destructionists when the news and events have both been in their favor.

There are at present two classes of purchasers: the large interests which are accumulating stocks, and the small investor. Both these classes may be designated as "good" buyers. The selling is mostly by room traders, professionals and the very large city element of daily traders in brokerage offices. These operators all appear to be saturated with pessimism and can see only one side to the market, but their views lose value when we consider that this is the same representative crowd which was bullish a year ago.

I consider the technical situation very strong.

Conclusion.

During the week, I have suggested almost daily that it would be dangerous to wait for the "January rise." This view was founded partly on the character of the buying, partly on the fact that there was little danger in buying at this level and partly because there was too much unanimity of opinion about this "January rise." It has been impossible to pick up a newspaper or enter a brokerage office recently without reading or hearing that "No advance is possible before the middle of January." This expression is repeated with owlish wisdom and parrot-like sameness on every hand and when the whole speculative world makes up their minds to one thing it is pretty certain that something else will happen. In this regard it may also be noted that there is another unanimous view that whatever happens to the rails, industrials must go much lower.

This has been my personal opinion for months, but figures show that industrials have already gone "much lower" as compared with rails, and when the eleventh hour analysts begin to discover things it is good time to modify preconceived views.

Specifically the market this week shows Hill buying in Northern Pacific, some Gould buying in Missouri Pacific and an apparent desire for gradual betterment by the Morgan and Harriman interests. There is also continued absorption of Reading on a large scale and excellent buying of Steel properties. In Amalgamated and Smelters there is covering by the wiser bear elements on every soft spot.

I continue to recommend purchases of dividend-paying railroad stocks on every decline or at this level with a view to averaging on dips. As stated above I think the industrials are in a better position than for some time, but the rails are still the most attractive. Prefer Reading, Pennsylvania, Atchison, Northern Pacific, Great Northern, Union and Southern Pacific and Chesapeake & Ohio in the rails and the United States Steel stocks in the industrials.

WEEKLY LETTER.

December 28, 1907.

As much interest centers at present in the question of earnings, I have compiled the following tables, covering all the railroads of the United States for a period of 25 years. It will be observed that in only two instances did gross earnings decline as compared with the preceding year, in the panic year of 1884 and following the panic year 1893. The shrinkage in these two periods in both gross and net was not serious and the general showing for the 25 years makes for steady improvement. I do not believe the extent of decline in earnings as exhibited in this table accords with the popular idea of what occurs in panic years.

The shrinkage in net earnings in 1888 was due to excessive railroad building in 1886 and 1887, which resulted in a war of competition which affected both freight and passenger rates adversely.

It is rather surprising to note that the percentage of net to gross earnings has been increasing slowly during the last ten years. This improvement has occurred in the face of higher prices for material and labor. These drawbacks have apparently been overcome by economics and improved methods in other quarters, and it is reasonable to believe that our present halt in business will bring about lower prices for both materials and labor, which will greatly benefit railroad corporations. This advantage will not be reflected at once, but particularly in the item of labor, the railroads will make a more or less permanent gain. In fact, the depression in general business simplifies several serious problems with which the railroad corporations were confronted. I have already called attention to the fact that a period of stagnation has a double bearing on the labor problem, in that it not only reduces the price of labor but increases

its efficiency. Also depression is invariably followed by easy money, and here another serious trouble will be alleviated. In fact, it is difficult to imagine how these things could possibly have been effected in any other manner than a halt in general activity and expansion.

Advances and declines in gross and net earnings of United States railways for 25 years:

(Comparisons with each preceding year.)

Fiscal Year.	Gross Earnings.	% Adv.	% Dec.	Earnings Less Operating Expenses.	% Adv.	% Dec.	% of Net to Grs.
1882	$733,960,943	.....	....	$267,124,032	.....	.....	36
1883	807,112,780	9.95	....	291,587,588	9.17	.....	37
1884	763,306,608	.....	5.42	266,513,911	.....	8.62	35
1885	772,568,833	1.21	....	269,493,931	1.12	.....	35
1886	829,940,836	7.43	....	300,603,564	11.57	.....	36
1887	940,150,702	13.30	....	334,989,119	11.46	.....	37
1888	960,256,270	2.10	....	301,631,051	.....	9.98	32
1889	1,003,736,596	4.53	....	322,284,986	6.86	.....	32
1890	1,097,847,428	9.38	....	346,921,318	7.65	.....	32
1891	1,138,024,459	3.66	....	356,209,880	2.68	.....	31
1892	1,204,915,204	6.75	....	358,638,520	.68	.....	30
1893	1,222,618,290	1.47	....	364,591,109	1.61	.....	30
1894	1,066,943,358	.....	4.56	317,757,399	.....	12.89	30
1895	1,092,395,437	2.38	....	323,196,454	1.40	.....	30
1896	1,125,632,025	3.04	....	332,766,979	2.96	.....	30
1897	1,132,866,626	.60	....	342,792,030	3.02	.....	30
1898	1,249,558,734	10.30	....	389,666,474	13.71	.....	31
1899	1,336,096,379	6.97	....	423,941,689	8.77	.....	31
1900	1,501,695,378	12.40	....	483,247,526	14.02	.....	32
1901	1,612,448,826	7.31	....	520,294,727	7.67	.....	32
1902	1,720,814,900	6.72	....	560,026,277	7.64	.....	33
1903	1,908,857,826	10.98	....	592,508,512	5.80	.....	31
1904	1,977,638,713	3.60	....	639,240,027	7.80	.....	33
1905	2,082,482,406	5.30	....	691,880,254	8.23	.....	33
1906	2,319,760,030	11.44	....	787,596,877	13.83	.....	34

In connection with the above table we may examine several other factors, as follows:

Year.	Total per mile Capitalization.	Aver. Int. rate %	Aver. Div. rate %	Exp. to Earnings %	Gross Earnings per mile.	Net Earnings per mile.
1883	$61,592	4.94	2.76	63.82	$7,405	$2,679
1884	60,886	4.82	2.50	65.22	6,663	2,318
1885	60,897	4.97	2.00	65.17	6,209	2,163
1886	60,564	4.86	2.02	63.83	6,570	2,376
1887	58,093	4.86	2.17	64.44	6,799	2,418
1888	60,185	4.48	1.80	68.72	6,540	2,045
1889	59,881	4.53	1.79	67.95	6,446	2,066

Year.	Total per mile Capitalization.	Aver. Int. rate %	Aver. Div. rate %	Exp. to Earnings %	Gross Earnings per mile.	Net Earnings per mile.
1890	61,343	4.44	1.82	68.50	6,875	2,166
1891	61,221	4.41	1.87	68.83	6,851	2,135
1892	61,428	4.25	1.93	69.82	6,852	2,068
1893	62,367	4.31	1.88	70.29	6,963	2,069
1894	61,871	4.19	1.66	70.22	6,054	1,803
1895	62,554	4.24	1.58	70.41	6,097	1,804
1896	61,631	4.45	1.52	70.43	6,223	1,840
1897	62,753	4.24	1.51	69.74	6,228	1,884
1898	62,658	4.21	1.71	68.16	6,771	2,111
1899	62,268	4.26	1.92	68.27	7,161	2,272
1900	61,884	4.27	2.44	68.93	7.826	2,519
1901	62,926	4.24	2.65	67.73	8,270	2,668
1902	64,371	4.10	2.97	67.45	8,696	2,830
1903	65,380	4.17	3.03	68.96	9,301	2,887
1904	66,715	4.01	3.31	67.68	9,248	2,989
1905	68,493	3.79	3.27	67.49	9,643	3,135
1906	71,388	3.99	3.63	66.33	10,631	3,580

The per mile capitalization has increased but net earnings per mile have also increased, and while the percentage of operating expenses shows an advance as compared with 1883, there has been a marked improvement in this regard during more recent years. The rate per cent. of interest has fallen, but the dividend rate has risen. This is, of course, a natural and interdependent movement, as the improvement in dividend rates increases the factor of safety in bonds, and income rates fall as safety is increased.

It is true, the figures given above do not include the results of the last six months and that a considerable falling off has occurred in the interim. Our comparisons are now rather odious because they are made with 1906-07, which was an unprecedentedly good year. It is my opinion, however, that no such shrinkage as that of 1893 is to be expected, for we are not now facing a crisis brought about by industrial causes, as was the case in 1893 with its crop failures and foreign trade debit. It should also be considered that in comparing monthly reports with those of preceding months, allowance must be made for the fact that it is a period of the year when earnings always fall off. This is rather a pedantic and elementary statement, but we are so obsessed with fear and blueness just now that even the most natural things look bad. And we should also remember in making our comparisons that stocks have fallen to a level which, considering everything, is lower than for twenty-five years. This decline has discounted and, in my opinion, over-discounted all possible evils. It will be remembered that stock prices reached their lowest levels in July, 1893, while the slump in gross and net earnings of railroads occurred in 1894.

I do not think anyone can examine the figures given above carefully without being impressed with the steady and healthful growth of our railroads for twenty-five years past and there is no

reason to anticipate anything different in the future. True, we have business troubles and we have adverse legislation, but all these things have been experienced in the period consulted and they caused nothing but a temporary halt. Graft we have also, but it is probable that there is less of it to-day than at any time in the past, and the fuller and clearer reports furnished by railroad corporations are gradually reducing both investment and speculation to a science.

Industrial Securities.

Early in the year figures were produced in these advices to show that in a period of depression, such as was then predicted, industrial shares suffered about 33 per cent. more than rails. I think this view should be modified now to some extent. The figures formerly compiled necessarily contemplated periods when industrial securities were in their infancy and when opportunities for manipulation were greater than at present. This group of stocks is more seasoned now and such fiascos as the declines in Distillers from 72½ to 17 points below zero, and of National Cordage from 146 to 18 points below zero, will never occur again in listed stocks. We have already had a decline since January 1, 1907, of 21 per cent. more in industrials than in rails and this is about enough. Some of the industrial stocks are now very cheap, but great discrimination should be used in making purchases of such stocks and, on the whole, it is better to stick to the rails for a while, as the opportunities are as good in rails and the factor of safety is greater.

The General Situation.

Money affairs continue to dominate the situation at present. The currents are numerous and conflicting, but it is certain that a basic improvement is going on. We may best arrive at the truth in this regard by making comparisons with a few weeks ago, by which process we find many favorable contrasts. The deficit in reserves is disappearing rapidly and many interior banks are resuming cash payments. On the other hand, country banks are hanging on to cash and refusing to sell New York exchange to merchants who wish to make the usual New York remittances at this time of year. There is, of course, much mutual recrimination between the city and country bankers and much that is designated as conservatism could be more properly called cowardice, but the general public is getting over its fright and the banking situation will soon straighten itself out. Withdrawal notices which were given in volume at the beginning of the scare, are not being exercised to any considerable extent and the panicky feeling is dying a natural death. Call money rates are high, as is usually the case at this time of year and a good many wiseacres with short memories are making very positive statements that no improvement can occur in the stock market with 20 per cent. call money. It would be

well for these instructors to go back into history. They will find that stock prices have frequently advanced with call money at double that figure. The clearing house certificates are a more serious matter and they might be looked upon as a bar to any advance were it not for the incontestable fact that the stock market moves ahead of events. The wholesale retirement of clearing house certificates in the near future is certain; it is a favorable factor and the stock market does not wait on favorable factors which are certain—it anticipates them.

The payment of the Missouri Pacific dividend in stock had a chilling effect on prices Thursday, but that is not important. If the dividend had been paid in cash the effect would have been the same. In a period of blueness all is blue. The declaration of a dividend is criticised as unwarranted and its elimination is worse. It is ridiculous, but true, that the very same factors which are considered bullish in a bull market are looked upon as bearish in a bear market.

So far as dividends are concerned, it is infinitely better to cut them when they should be cut than to strain for appearance sake. Such action merely spells economy. Every business—your business and mine—has its lean periods and when they come we can fortify the future by curtailment, retrenchment and economy. And it is these same lean periods which give us our periodical opportunities to buy stocks at low prices with full confidence in the ultimate future. The fortunes made by purchases of stocks in 1893 would have been impossible but for the depression of that year. Until we are educated up to an appreciation of this truth we cannot speculate in an intelligent manner.

The Technical Situation.

There is no material change in the technical situation. There is still a very large outstanding short interest which may be punished at any time. There is, as yet, no evidence of aggressiveness in the bull camp. The buyers of stocks are content to accept offerings and say nothing. Both sides are confident but the opposing forces are of a very different character. On one side we have cash investors and very strong interests and on the other, a crowd of daily traders flushed with the successes of the last six months. The latter element constitutes a very large majority but also a very weak majority. If the market were twenty points lower they would not see the bottom—they never do.

The technical situation is very strong.

Conclusion.

In my opinion it is perfectly safe to buy the good rails at this level. Such stocks as Union Pacific, Southern Pacific, Reading, Pennsylvania, Northern Pacific, Great Northern preferred and Atchi-

son, are in the strongest position. In the lower priced rails Chesapeake & Ohio and M., K. & T. look best. In the industrials the U. S. Steel issues and Distillers are very cheap.

There is one little point to which I will call attention of the more active traders. In a period of high prices unusual weakness in specific stocks is indicative of a coming decline in such shares. It is very dangerous to pursue this theory in a time like the present. In the first instance the specific weakness represents liquidation but at present it often means manipulation for the purpose of accumulating. It is better just now to purchase the stocks which lag behind or show undue weakness.

WHAT THE PRESS SAYS.

"Upon speculative subjects, Mr. Gibson speaks words of soberness and experience."—*New York Times.*

"Mr. Gibson is both outspoken and full of real information. His writings must be of service to even more than the embryo speculator."—*The Star,* Washington, D. C.

"It is a suggestive work; full of the after event wisdom that may be of help in braving the future."—*New York Sun.*

"Mr. Gibson places himself in the attitude of the speculator, and from his wide experience with the machinery of the exchanges and the technicalities of the market, explains many of those movemnts and conditions alarming and fraught with danger to the imperfectly informed."—*Boston Herald.*

"Mr. Gibson's treatment of the subject is of the hardheaded, common-sense sort that ought to appeal to the speculators who fail. He is a writer entirely competent to deal with his theme."—*New York Commercial.*

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"Mr. Gibson's work should be of great value to every speculator and trader."—*The American Banker,* New York City.

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"Since the time of the late Charles H. Dow, founder of *The Wall Street Journal,* no writer has appeared to handle the subject of marginal speculation with anything approaching the knowledge of the subject, the breadth of view and the commonsense treatment which Mr. Gibson devotes to it."—*News,* Galveston, Texas.

"A work of this kind, from the pen of one who is thoroughly familiar with his subject, cannot but prove of great value, since it not only emphasizes the futility of attempting to 'win out' in Wall Street by operating on a basis which is nothing more or less than a gamble, but also furnishes reliable and prudent advice as to the course by which losses may be avoided and profits gained. By its perusal many may be deterred from going into Wall Street on a 'luck' basis, while if the work induces others to embark in such ventures it will at least give them a chance to go in with their eyes open."—*Dry Goods Commercial,* New York City.

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"Himself a broker for many years, Mr. Gibson frankly admits that four-fifths of those who engage in speculation are losers by it; nevertheless their losses are needless, as he sees it in the light of long experience."—*Chicago* (Illinois) *News.*

"Mr. Gibson boldly takes the position that the shearing of the lambs is largely the fault of the lambs themselves and is not due to any inherent defect in the business of speculation."—*The Business World.*